



Federal Accounting Standards Advisory Board

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**June 11, 2020**

Memorandum

**MEMBER ACTIONS REQUESTED:**

Please review the materials and answer the questions by **June 18, 2020**

To: Members of the Board  
From: Robin M. Gilliam, Assistant Director  
Through: Monica R. Valentine, Executive Director  
Subject: MD&A – **TAB F**<sup>1</sup>

**MEETING OBJECTIVE**

In support of the reporting model initiative, the Management's Discussion and Analysis (MD&A) meeting objective is to discuss MD&A objectives in preparation for developing the MD&A vision framework to support the MD&A pilot.

**BRIEFING MATERIALS**

The briefing materials include this memorandum and the following:

**Attachment 1:** Stewardship Reporting Objectives Analysis Document (ROAD)

**Attachment 2:** Systems and Control ROAD

**Appendix A:** MD&A: Project History and Milestones

**Appendix B:** Sample of Agency 2019 MD&As<sup>2</sup>

You may electronically access all of the briefing material at <https://fasab.gov/board-activities/briefing-materials/>.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

<sup>2</sup> Originally, February 2020, TAB C- Attachment 4, *Sample of Agency 2019 MD&As*

## DEVELOPMENT PHASE

The MD&A project is in the development phase where the Board deliberates to develop an exposure draft to improve management's discussion and analysis (MD&A) reporting.

## BACKGROUND

The objective of this project is to improve MD&A by providing an integrated, holistic story about a reporting entity's mission, budget, cost, performance, and financial position and condition.

At the June 2019 Board meeting, members requested that staff develop MD&A objectives based on the four reporting model objectives:<sup>3</sup> budgetary integrity, operating performance, stewardship, and systems and control.

The following catalogs MD&A objectives the Board has identified for general (G), and reporting objectives: budgetary integrity (BI), and operating performance (OP).

CATALOG OF MEMBER IDENTIFIED MD&A OBJECTIVES		
Code	MD&A Objective	Mtg Identified
G-1	MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to, unfunded, unobligated, and net cost of operations.	Aug 2019
BI-1	MD&A should concisely explain financing resources and the sources and status of budgetary resources.	Aug 2019
BI-2	MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.	Aug 2019
OP-1	MD&A should concisely explain if significant costs contributed to agency performance	Oct 2019
OP-2	MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant trends cost over multiple years.	Oct 2019

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<sup>3</sup> Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraphs 105-150.

CATALOG OF MEMBER IDENTIFIED MD&A OBJECTIVES		
Code	MD&A Objective	Mtg Identified
OP-3	MD&A should provide an integrated discussion and analysis of the entity's mission, organization, budget, cost, and performance, for the entity's significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.	Feb 2020
OP-4	MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRAMA reporting, for the entity's major program investments and the entity as a whole.	Feb 2020

## STAFF ANALYSIS & RECOMMENDATIONS

This memorandum will review the staff proposed objectives for the stewardship, and systems and control reporting objectives. Staff included Attachment 1: *Stewardship Reporting Objective Analysis Document (ROAD)* and Attachment 2: *Systems and Control ROAD* to provide members with a review of existing concepts related to both reporting objectives. From these concepts, staff recommends two stewardship MD&A objectives, one that focuses on financial position and one that focuses on financial condition; and one systems and control objective.

Staff will analyze the issue to resolve, benefit to users, and benefit for preparers to help members review and finalize these MD&A proposed objectives.

### I. STEWARDSHIP

MD&A should help users understand if the federal government and its reporting entities are good stewards of the resources needed and used to deliver goods and services to protect and serve its citizens. The Stewardship concepts<sup>4</sup> exist to help the Board explain stewardship through developing standards that address the financial position and condition of the federal government.

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<sup>4</sup> Please see Attachment 1 - *Stewardship Reporting Objectives Analysis Document (ROAD)* for all current stewardship concepts

financial position

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Definition

Cite Term Add to Flashcards

The status of the assets, liabilities, and owners' equity (and their interrelationships) of an organization, as reflected in its financial statements. Also called financial condition.

[businessdictionary.com/definition/financial-position.html](https://businessdictionary.com/definition/financial-position.html)

However, as this definition shows, these terms are interchangeable which can cause confusion. Therefore, to simplify the stewardship objectives, staff proposes one for financial position and one for financial condition based on the timeframe associated with each. Current concepts helped staff to discern the timeframe of financial position from financial condition.

According to SFFAC 1

Paragraph 144: *Financial condition is a broader and more forward-looking concept than that of financial position; and*

Paragraph 145: *Indicators of financial position, measured on an accrual basis, are the starting point for reporting on financial condition*

## A. PROPOSED STEWARDSHIP MD&A OBJECTIVE #1 – FINANCIAL POSITION

Staff presents the first proposed MD&A stewardship objective to help users understand if the current financial position of the reporting entity significantly improved or deteriorated over the reporting period.

*MD&A should concisely explain reasons for what caused changes in assets, liabilities, and/or net position from the prior year that had a significant positive or negative effect on the financial position of the reporting entity.*

Staff developed this proposal in support of the following concepts:

- SFFAC 1 introduces the reporting objective stewardship in the *Summary* section,

Federal financial reporting should provide information that helps the reader to determine whether...the government's financial position improved or deteriorated over the period...



- SFFAC 3, paragraph 26

It should give readers the benefit of management's understanding of the significance and potential effect ... of major changes in types or amounts of assets, liabilities, costs, revenues ...

#### ISSUE TO RESOLVE:

Current MD&As present information about individual financial statements and not about whether the financial position significantly improved or deteriorated. This is the result of the current guidance in the Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*, paragraph 2, which only requires a section in MD&A that addresses the entity's "...financial statements."

There is no standard to guide management on how to discuss financial position in relation to the impact of significant changes in financial statement elements<sup>5</sup>.

As a result, reporting is inconsistent across agencies as they work hard to interpret what is expected. This is evident in the various titles and number of pages used as shown in Table 1.

<b>Table 1: Financial Statements Section<sup>6</sup></b>			
<b>Agency</b>	<b>Section Title</b>	<b>Pages</b>	<b>Total Pages</b>
Commerce	Analysis of FY 2019 Financial Condition and Results	28-41	24
EAP	Financial Condition and Results	52-54	3
HHS	Financial Summary and Highlights	99-107	9

Reporting entities such as Commerce may use 24+ pages to provide an in-depth technical analysis of each financial statement, including individual account balances, explaining major program breakouts. On the other hand, reporting entities such as EPA may use as little as three pages to provide a brief discussion of what makes up their assets, liabilities, and net position. While reporting entities like HHS fall somewhere in the middle with 9+ pages to provide a description of the use and make up of each financial statement.

<sup>5</sup> SFFAC 5: *Definitions of Elements and Basic Recognition Criteria*

for Accrual-Basis Financial Statements

<sup>6</sup> For specifics referenced in Table 1, please see Appendix B: *Sample of Agency 2019 MD&As*.

## BENEFIT TO USERS:

This MD&A objective should help provide information for users to understand the entity's financial position. It should give readers the benefit that management understands the how and why assets, liabilities, and/or net position changed and significantly affected the financial position of their reporting entity. For example, a significant positive change in a financial statement element could be the result of actions taken during the reporting period to address known issues; or, a negative result due to unexpected events, such as a natural disaster and/or pandemic.

## BENEFIT FOR PREPARERS:

This MD&A objective should provide better guidance and more flexibility for discussing significant changes to financial position of the reporting entity. This flexibility will enable preparers to include a discussion and analysis that illustrates management's understanding about if and how the financial position has significantly improved or deteriorated.

**QUESTION 1: Do members agree with the following MD&A stewardship objective?  
If yes, are there any recommended edits?**

*MD&A should concisely explain reasons for what caused changes in assets, liabilities, and/or net position from the prior year that had a significant positive or negative effect on the financial position of the reporting entity*

## **B. PROPOSED MD&A STEWARDSHIP OBJECTIVE #2 – FINANCIAL CONDITION**

Staff presents the second proposed stewardship objective to help users understand what could affect the financial condition of the reporting entity going forward.

*Management should discuss the reporting entity's financial condition by analyzing what actions the agency plans to take in the near and far future to address existing issues, challenges, and/or risks—financial and/or performance—to protect mission resources and major program investments.*

Staff developed this proposal in support of the following concept:

SFFAC 1, paragraph 144

Financial Condition “is a broader and more forward-looking concept than that of financial position.”

Therefore, this proposed stewardship MD&A objective should help management look-forward financially.

#### ISSUE TO RESOLVE:

Current MD&As do not present information about financial condition. This is the result of the current guidance in

SFFAS 15, paragraph 3

MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions, and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.

While this standard does reference “possible future effects”, it does not connect forward-looking information to financial condition. Current discussions often include boilerplate discussions about strategic plans and goals to achieve them only in the near-term, such as, what management plans to achieve in the next reporting period. As a result, MD&As do not include any forward-looking information about the potential significant financial impact of known risks and issues/challenges, such as major named storms and COVID-19 assistance.

As a result, reporting is inconsistent across agencies as they work hard to interpret what is expected. This is evident in the various titles as shown in Table 2.

<b>Table 2: Forward-Looking Information<sup>7</sup></b>			
<b>Agency</b>	<b>Sections</b>	<b>Page</b>	<b>Total Pages</b>
Commerce	Looking Forward	16	1
EAP	Financial Management for the Future	56	1
HHS	Looking Ahead to 2020	80-82	3

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<sup>7</sup> For specifics referenced in Table 2, please see Appendix B: *Sample of Agency 2019 MD&As*.

## BENEFIT TO USERS:

This MD&A OP objective should help users to understand how management **plans to address** risks and existing issues in the future—near and long-term—to protect the financial condition of the reporting entity through the efficient and effective use of resources to achieve major program investments. Actions taken as of the balance sheet date are included in the first proposed stewardship objective – financial position.

## BENEFIT FOR PREPARERS:

This MD&A OP objective should encourage a preparer to provide a qualitative discussion about what actions management plans to take in the long-term to address existing issues, challenges and risks; and how those actions should financially protect major program investments as part of the reporting entity's financial condition.

This objective should permit flexibility for preparers to define their long-term time horizons in relation to when the reporting entity provides goods and/or services.

**QUESTION #2: Do members agree with the following proposed MD&A stewardship objective? If yes, are there any recommended edits?**

*Management should discuss the reporting entity's financial condition by analyzing what actions the agency plans to take in the near and far future to address existing issues, challenges, and/or risks—financial and/or performance— to protect mission resources and major program investments.*

## II. PROPOSED SYSTEMS AND CONTROL MD&A OBJECTIVE

This reporting model project is to evolve MD&A into a holistic story about the financial position and condition of the reporting entity and related results of protecting and serving citizens through major program accomplishments. As a result, MD&A should not be a holding spot for compliance reporting. Therefore, staff proposes the following systems and control MD&A objective to clarify the context of management's discussion surrounding systems and control. Systems, controls, and legal issues may be issues, challenges and/or risks that have or could significantly affect the financial position and condition.

*MD&A should provide a summary analysis of any system, control, and/or legal issue that have or could significantly affect the balance of any financial statement element of the reporting entity.*

## ISSUE TO RESOLVE:

Current guidance in SFFAS15, paragraph 2, only requires a section in MD&A that addresses the entity's "... *systems, controls, and legal compliance*." It does not however provide guidance for what that entails.

As a result, preparers focus on compliance reporting and do not provide a discussion and analysis that helps to develop a holistic story about what system and/or controls might have significantly affected a reporting entity's financial position and condition.

Therefore, reporting is inconsistent across agencies as they work hard to interpret what is expected. This is evident in the various titles and number of pages used as shown in Table 3.

<b>Table 3: Systems and Control Section<sup>8</sup></b>			
<b>Agency</b>	<b>Section Title</b>	<b>Pages</b>	<b>Total Pages</b>
Commerce	Management Controls	17-19	3
EAP	Accountability: Systems, Controls, and Legal Compliance	58-59	2
HHS	Systems, Legal Compliance, and Internal Control	83-94	12

## BENEFIT TO USERS

This MD&A objective should help users understand if there are any systems, control, or legal issues that may significantly affect the reporting entity's financial position and condition. This information should illustrate management's understanding of how these issues have or could significantly affect financial statement elements.

## BENEFIT TO PREPARERS

This MD&A objective will remove the focus on compliance reporting and instead help preparers focus on telling a holistic story about issues that may significantly affect the financial position and condition of the reporting entity.

**NOTE:** Because systems, controls or lawsuits may be issues, challenges, or risks, this objective will be incorporated with the above proposed MD&A stewardship objectives into the MD&A vision framework that staff is drafting.

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<sup>8</sup> For specifics referenced in Table 3, please see Appendix B: Sample of Agency 2019 MD&As.

**QUESTION #3: Do members agree with the following MD&A systems and control objective? If yes, are there any recommended edits?**

*MD&A should provide a summary analysis of any system, control, and/or legal issue that has or could significantly affect the balance of any financial statement element of the reporting entity.*

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**BOARD QUESTIONS:**

**Do members agree with following proposed MD&A objectives? If yes, are there any recommended edits?**

1. MD&A should concisely explain reasons for what caused changes in assets, liabilities, and/or net position from the prior year that had a significant positive or negative effect on the financial position of the reporting entity.
2. Management should discuss the reporting entity's financial condition by analyzing what actions the agency plans to take in the near and far future to address existing issues, challenges, and/or risks—financial and/or performance—to protect mission resources and major program investments.
3. MD&A should provide a summary analysis of any system, control, and/or legal issue that has or could significantly affect the balance of any financial statement element of the reporting entity.

**NEXT STEPS:** Staff plans to draft the MD&A vision framework based on these objectives, in preparation for the pilot.

**MEMBER FEEDBACK:**

If you have any questions, comments, or wish to schedule a teleconference meeting to discuss, please contact Ms. Gilliam by email at [gilliamr@fasab.gov](mailto:gilliamr@fasab.gov), with a cc to Ms. Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov), by June 18, 2020.

TAB F

MD&A

ATTACHMENT 1

STEWARDSHIP ROAD

JUNE 2020

**STEWARDSHIP**  
REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)

Stewardship Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Stewardship from SFFAC 3
<p><b>SFFAC 1, Objectives of Federal Financial Reporting</b></p> <p>Pg. 7, paragraph 15: Federal financial reporting should assist report users in assessing the impact on the country of the <b>government's operations and investments</b> for the period and how, as a result, the government's and the nation's <u>financial conditions</u> have changed and may change in the future.</p> <p>Pg. 7, paragraph 16: Federal financial reporting should provide information that helps the reader to determine whether</p> <ul style="list-style-type: none"> <li>the government's <b>financial position</b> <u>improved or deteriorated over the period</u>,</li> <li>future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and</li> <li>government operations have contributed to the nation's current and <b>future well-being</b>.</li> </ul> <p><b>SFFAC 1, Background and Rationale</b></p> <p>Pg. 5, paragraph 11: Questions this objective should address:</p> <ol style="list-style-type: none"> <li>Did the government's financial condition improve or deteriorate?</li> <li>What provision was made for the future?</li> </ol> <p><b>SFFAC 1, The Needs of Users of Federal Financial Reports</b></p> <p>Pg. 24, paragraph 99: Citizens, Congress, executives, and program managers need information to assess the <u>effect of the government's activities on its financial condition</u> and that of the nation.</p> <p>Information is needed about the <b>financial outlook for both the short and the long term</b>. [Staff Notes: forward looking]</p>	<p><b>SFFAC 3, Background</b></p> <p>Pg. 9, paragraph 14: Regarding the financial statements, MD&amp;A should answer questions such as the following, to the extent that they are relevant and important for the entity:</p> <ul style="list-style-type: none"> <li>What is the entity's financial position? What is its financial condition?<sup>5</sup> How did this come about?</li> <li>What were the significant variations: <ul style="list-style-type: none"> <li>from prior years?</li> <li>from the budget?<sup>6</sup></li> <li>from performance plans, long-term plans, or other relevant plans in addition to the budget?</li> </ul> </li> </ul> <p>What is the potential effect of these factors, of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced by factors outside the reporting entity's control, including actions by Congress.)</p> <p>FN <sup>5</sup>The traditional concepts of "financial position" and "financial condition" are typically applicable to revolving funds, Government corporations, and other reporting entities that are intended to be self-financing. The concepts may be less relevant, or may require some qualification or modification, for other kinds of Federal reporting entities.</p> <p>FN <sup>6</sup>Management should use its judgment to decide what variances are relevant for MD&amp;A. It will not always be essential or appropriate to discuss all variances.</p>



**STEWARDSHIP**  
REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)

Stewardship Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Stewardship from SFFAC 3
<p>Pg. 24, paragraph 100: Information is needed on the government's <b>exposure and risks associated</b> with deposit insurance, pension insurance, and flood insurance <i>[Staff Notes: Addressed in SFFAS 51]</i>.</p> <p>People need to know about <u>likely future expenditures</u> for [example] cleaning up nuclear weapons sites and military bases.</p> <p>They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises.</p> <p>Pg. 24, paragraph 102: Users also need <b>trend information</b> on spending on investments in physical and human capital versus spending on consumption.</p> <p><b>SFFAC1, Stewardship; Objective 3</b></p> <p>Pg. 31, 135: This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity.</p> <p>It focuses not on the provision of specific services but on the requirement that the government report the <b>broad outcomes of its actions...</b></p> <p>Pg. 31, between paragraphs 135 and 136: <b>Federal financial reporting should provide information that helps the reader to determine:</b></p> <p>Pg. 31, paragraph 136: <b>Sub-Objective 3A. Whether the government's financial position improved or deteriorated over the period.</b></p> <p>Pg. 31, paragraph 137: Assessing whether the government's <b>financial position</b> improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications.</p> <p>This is because <u>analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year</u></p>	<p><b>SFFAC 3, Discussion and Analysis of the Financial Statements</b></p> <p>Pg. 13, paragraph 26: <u>Financial Results, Position and Condition</u>—MD&amp;A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government.</p> <p>It should give readers the benefit of management's understanding of the significance and potential effect from both a short- and a long-term perspective of:</p> <ul style="list-style-type: none"> <li>the variations discussed in paragraph 14 in terms of <b>major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays;</b></li> <li>particular balances and amounts shown in the basic financial statements, including the notes, such as those dealing with funds from dedicated collections, if relevant to important financial management issues and concerns; and</li> <li>the entity's required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).</li> </ul> <p>Pg. 13, paragraph 27: Only those variations, balances and amounts, and stewardship matters of potential interest to readers who are not part of agency management should be discussed.</p> <p>Not all changes that are material to the GPFFR are sufficiently important to be included in MD&amp;A. A line-by- line analysis of the financial statements is not generally appropriate.</p> <p>Instead, MD&amp;A should summarize the most important items, explain the relevant causes</p>

**STEWARDSHIP**  
REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)

Stewardship Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Stewardship from SFFAC 3
<p><u>taxpayers to future-year taxpayers <b>without related benefits.</b></u></p> <p>Pg. 31, paragraph 138: ... help to explain the issuance of new debt in relation to expenditures for activities with current benefits versus expenditures for investment-type activities that yield future benefits. <i>[Staff Notes: forward looking time horizons]</i></p> <p>Pg. 31, paragraph 139: <b>Sub-Objective 3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.</b></p> <p>Pg. 32, paragraph 140: Information about the results of past government operations is useful in assessing the stewardship exercised by the government.</p> <p>Users of financial reports also want help in assessing the <b>likelihood that the government will continue to provide the current level of benefits and services to constituent groups</b>, such as farmers, retirees, and the poor.</p> <p>Pg. 32, paragraph 141: Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible. <i>[Staff Notes: risks that have a significant financial impact]</i></p> <p>Pg. 32, paragraph 143: <b>Sub-Objective 3C. Whether government operations have contributed to the nation's current and future well-being.</b></p> <p>Pg. 32, paragraph 144: Objective 3, sub-objective 3C, imply a concern with "financial condition," as well as "financial position."</p> <p>Financial condition is a broader and more forward-looking concept than that of financial position.</p> <p>Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.</p> <p>For example, reports intended to help meet this objective might address users' needs for information about</p>	<p>and effects, and place them in context.</p> <p>Pg. 14, paragraph 31: <u>Current Demands, Risks, Uncertainties, Events, Conditions, and Trends</u></p> <p>MD&amp;A should describe important existing, currently-known demands, risks, uncertainties, events, conditions and trends--both favorable and unfavorable--that affect the amounts reported in the financial statements and supplementary information.</p> <p>Pg. 14, paragraph 32: <u>Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends</u></p> <p>The discussion of these current factors should go beyond a mere description of existing conditions, such as demographic characteristics, claims, deferred maintenance, commitments<sup>12</sup> undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors.</p>

**STEWARDSHIP**  
REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)

**Stewardship Reporting  
Objective Concepts from SFFAC 1**

investments in (or expenditures for) research and development, military readiness, and education; changes in the service potential of infrastructure assets; spending for consumption relative to investments; opportunities for growth-stimulating activities; and the likelihood of future inflation.

Pg. 32, paragraph 145: Indicators of financial position, measured on an accrual basis, are the starting point for reporting on financial condition ... Reports...might disclose, among other things, the contribution that the government is making to national wealth by financing assets that are not federally owned, such as research and development, education and training, and state-owned infrastructure.

Information on **trends** in total national wealth and income is **also important**.

**MD&A Concepts about  
Stewardship from SFFAC 3**

TAB F

MD&A

ATTACHMENT 2

SYSTEMS and CONTROL ROAD

JUNE 2020

SYSTEMS AND CONTROL  
REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p><b>SFFAC 1, Objectives of Federal Financial Reporting</b></p> <p>Pg. 7, paragraph 17: Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that</p> <ul style="list-style-type: none"> <li>• transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards;</li> <li>• assets are properly safeguarded to deter fraud, waste, and abuse; and</li> <li>• performance measurement information is adequately supported.</li> </ul> <p><b>SFFAC 1, Background and Rationale</b></p> <p><i>Pg. 5, paragraph 11: Questions this objective should address:</i></p> <ol style="list-style-type: none"> <li>1. Does the government have cost-effective systems and controls to safeguard its assets?</li> <li>2. Is it able to detect likely problems?</li> <li>3. Is it correcting deficiencies when detected?</li> </ol> <p><b>SFFAC 1, The Needs of Users of Federal Financial Reports</b></p> <p>Pg. 25, paragraph 103: Users at all levels need information on internal controls and the adequacy of financial management systems.</p> <p>Citizens want assurances that systems and controls are in place to protect the resources [taxes] they supply to the government.</p> <p>They want to know that operating procedures and</p>	<p><b>SFFAC 3, Background</b></p> <p>Pg. 10, paragraph 15: Regarding <b>systems and controls</b>, MD&amp;A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term “management controls”) are adequate to ensure that:</p> <ol style="list-style-type: none"> <li>1. transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards;</li> <li>2. assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and</li> <li>3. performance measurement information is adequately supported.</li> </ol> <p>Pg. 10, paragraph 16: Reporting information that helps people assess the condition of the entity's management systems and of the relevant internal controls is an important objective of Federal financial reporting.</p> <p>The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws</p> <p>Pg. 10, paragraph 17: An entity's ability to prepare auditable financial statements and other reliable reports for management from the entity's books and records is a positive signal about the finance-related systems and controls of that entity.</p> <p>By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity's management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p>

SYSTEMS AND CONTROL  
REPORTING OBJECTIVE ANALYSIS DOCUMENT (ROAD)

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p>processes provide reasonable assurance that those resources are used <b>economically and efficiently for the purposes intended</b>.</p> <p>Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, <b>protected those resources and used them well</b>.</p> <p>Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that <b>high-risk areas have been identified and addressed</b>.</p> <p><b>SFFAC 1, <i>Systems and Control; Objective 4</i></b></p> <p>Pg. 33, paragraph 149: Sound controls over internal processes are essential both to safeguard assets and to ensure economy, efficiency, and effectiveness in many governmental programs.</p> <p>Pg. 33, paragraph 150: Information relevant to this objective helps financial report users to determine whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. An example of information that would address this objective is management's assertion about the effectiveness of the internal accounting and operational control system.</p> <p>NOTE: No sub-objectives</p>	<p>For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements.</p> <p>This information—like the information on performance—is presented in a discrete section of the GPFFR; alternatively it may be incorporated in the GPFFR by reference to separate reports such as those required by the Integrity Act.</p> <p>MD&amp;A should therefore address the most important facets of this information on systems, controls and legal compliance, as well as the financial statements, supplementary information, and performance information.</p> <p><b>SFFAC 3, <i>Discussion and Analysis of Systems, Controls and Legal Compliance</i></b></p> <p>Pg. 17, paragraph 41: ... Where relevant, management should describe the methods used to limit, detect, and recover improper payments; to assure that grantees and other nonfederal recipients of Federal funds use the funds as intended; and to assure that Federal and nonfederal entities comply with finance- related laws and regulations. MD&amp;A should include a concise description of any major problems in these areas and of the corrective action taken or planned.</p>

TAB F

MD&A

APPENDIX A

## **Project History and Milestones**

DEVELOPMENT PHASE JUNE 2019 - CURRENT

RESEARCH PHASE: OCTOBER 2016 – APRIL 2019

JUNE 2020

## **DEVELOPMENT PHASE: JUNE 2019 - CURRENT**

### **Reporting Model Phase I & RISK REPORTING MERGED INTO**

### **MD&A PROJECT**

#### **June 26 – 27, 2019**

At the June 2019 Board meeting, staff introduced the new project, MD&A Amendments which is a consolidation of work done to date from the Risk Reporting and Reporting Model Phase I: MD&A and Stewardship Improvements Projects. Research from those projects identified that the Statement of Federal Financial Accounting Concepts (SFFAC) 3, Management's Discussion and Analysis, includes most of the standards-based language that staff will use to amend Statement of Federal Financial Accounting Standards (SFFAS) 15., Management's Discussions and Analysis.

Members were curious to know about the future of SFFAC 3. Staff explained the initial analysis of SFFAC 3—presented in TAB G, Attachment 2—was only to present proposed amendments to SFFAS 15. Decisions about what to relocate or rescind from SFFAC 3 and information included in other concepts about MD&A will be presented at a future Board meeting. Members agreed noting that SFFAS 15 amendments should provide clarity and focus to help manage and reduce any additional burdens currently placed on preparers.

The following items were discussed in relation to amending SFFAS 15.

Members agreed that materiality is applied differently to MD&A than basic information. While the financial statements include material quantitative information, management should apply more judgement to what qualitative information to include in MD&A. For example, management should understand issues that are trending to determine what citizens are getting for their money and what qualitative information will be useful for those interest groups. Management could also include a qualitative discussion in MD&A to explain why a financial statement balance is growing, the risk of why it might continue to grow, and potential impact on operations.

Members agreed NOT to include the materiality boilerplate as an amendment to SFFAS 15 to ensure inclusion of important information. Instead the Board wants to include a discussion about the concept/definition of materiality and how it is applied to MD&A.

The following administrative amendments were approved for SFFAS 15 to conform to current SFFAS formats: change the header title from "Statement of Standards" to "Standards," and adding a scope and definition section. Items to be defined will be added at future meetings, which may include financial condition and financial position.



Members requested staff to develop well defined objectives for the MD&A before continuing to develop standards. Objectives should stand on their own to help preparers understand what should be achieved in MD&A and to prevent a check-list compliant exercise.

### **August 28 – 29, 2019**

At the August 2019, meeting, members approved the proposed project plan for the management's discussion and analysis (MD&A) amendments project.

The Board then began developing objectives for MD&A based on the standards in SFFAC 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and control.

Members agreed on the following MD&A objectives for budgetary integrity:

- MD&A should concisely explain financing resources and the sources and status of budgetary resources.
- MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.

In addition, members added a general objective to encourage a more concise and readable MD&A.

- MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to unfunded, unobligated, and net cost of operations.

### **OCTOBER 23-24, 2019**

At the October 2019 meeting, members began developing MD&A objectives for operating performance and agreed on the following:

- MD&A should concisely explain how significant costs contributed to agency performance.
- MD&A should concisely explain reasons for significant changes in components of net cost for the prior year, and any significant related trends and costs over multiple years.

Members will continue identifying additional operating objectives at future meetings.

**December 17-18 2019**

During the December 17, 2019, meeting, the Board agreed to continue conducting the reporting model phase II (budgetary information), note disclosure, and MD&A projects concurrently. Members determined that more progress could be made using this approach.

**February 26-27, 2020**

At the February 2020 meeting, members approved the technical plan with one change—to implement a task force earlier to help develop MD&A standards and the pilot. Task force members will be selected in the next six months. If you are interested, please contact Ms. Gilliam at the contact information below.

To support developing updated MD&A standards, members completed identifying the MD&A objectives for operating performance and tentatively agreed on preliminary language.

Staff plans to address the stewardship and systems and control objectives during the April 2020 meeting. Upon identification of all objectives, staff will curate a conceptual framework to help the Board develop updated MD&A standards.

**RESEARCH PHASE: OCTOBER 2016 – APRIL 2019**

Please see August 2019 TAB C MDA Combined Board Document for research phase history at [https://files.fasab.gov/pdf/files/19\\_8\\_TAB\\_C\\_MDA\\_Combined.pdf](https://files.fasab.gov/pdf/files/19_8_TAB_C_MDA_Combined.pdf)

**NOTE:** Research conducted by reporting Model Phase I: MD&A and Stewardship Investments Improvements and Risk Assumed/Reporting Projects.

TAB F

MD&A

APPENDIX B

JUNE 2020

## **Sample of Agency 2019 MD&As**

NOTE: This document was originally referenced for the  
February 2020 Board meeting.

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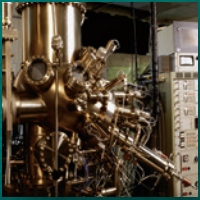
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# MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)



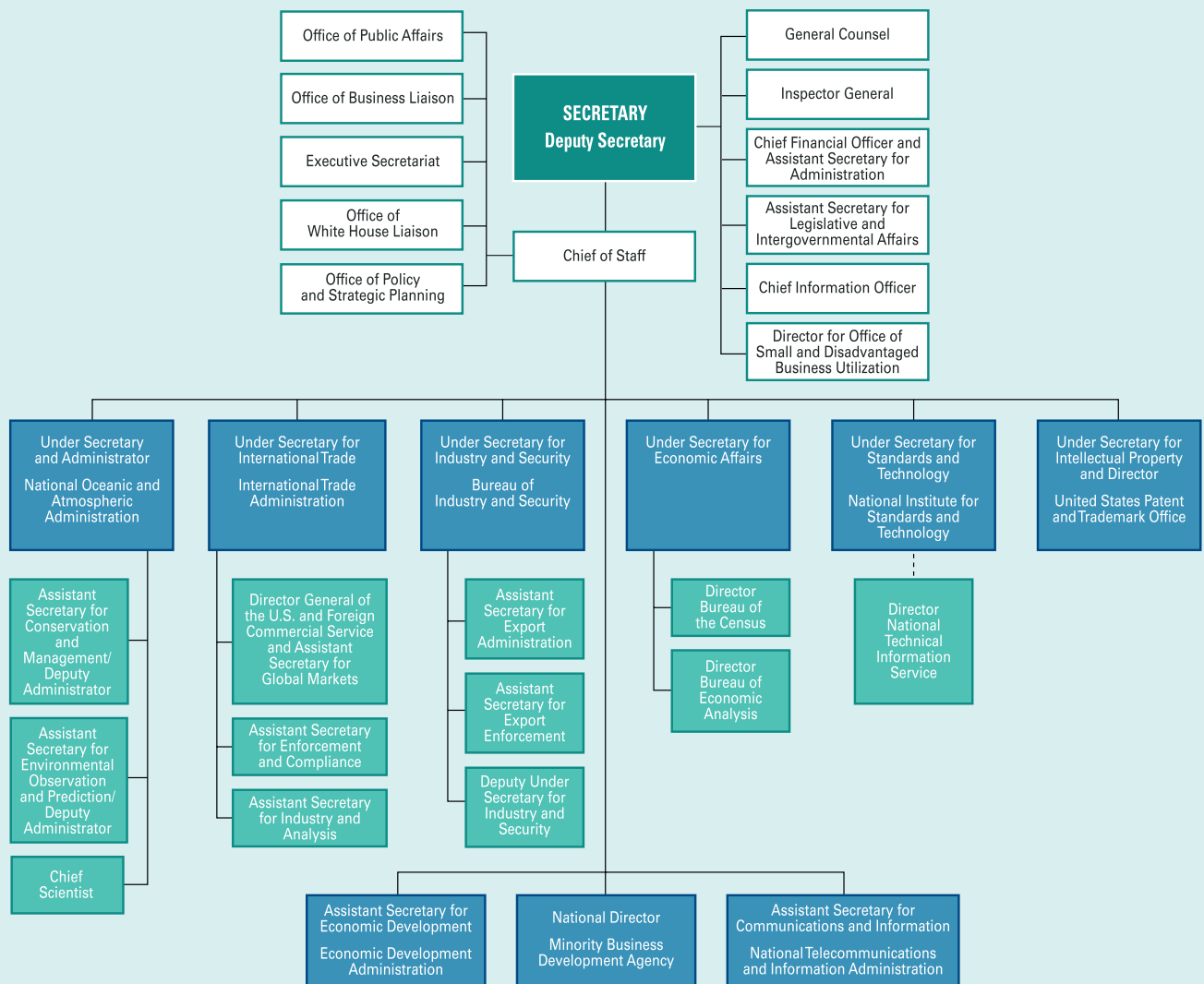


# MISSION AND ORGANIZATION

## MISSION

TO CREATE THE CONDITIONS FOR ECONOMIC GROWTH AND OPPORTUNITY.

## U.S. DEPARTMENT OF COMMERCE



# THE DEPARTMENT OF COMMERCE PROCESS FOR STRATEGIC PLANNING AND PERFORMANCE REPORTING

## BACKGROUND ON STRATEGIC PLANNING AND REQUIRED MONITORING

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The Government Performance and Results Act (GPRA) and the Modernization Act of 2010 (GPRAMA) requires that federal agencies produce a new strategic plan by the first Monday in February following the year in which the term of the President begins. In February 2018, the Secretary of Commerce issued a 2018–2022 Strategic Plan in accordance with GPRAMA and the rules and timetable established by the Office of Management and Budget (OMB).

Prior to FY 2018, agency strategic plans were developed and published on different schedules. “Synchronizing” plans promoted coordination and collaboration among federal agencies. Further, OMB facilitated a multi-agency view by regularly bringing agency representatives together to discuss their plans as they evolved.

The Department’s Strategic Plan was developed by a team of representatives from the 11 bureaus in collaboration with the Office of the Secretary. The Secretary and his Office of Strategic Planning and Policy made final decisions on the plan’s structure, content, and emphasis.

In the spring of 2019, the Department conducted the OMB-required Annual Strategic Review (ASR) of progress implementing the Strategic Plan. The ASR report was delivered to OMB in May. Subsequently, Agency leadership met with OMB principals to review progress.

During the summer of 2019, the Department developed a draft Annual Performance Plan and Report (APPR). The draft was sent to OMB in September with the budget proposal. It provides details on strategic objective milestones that have been achieved and sets performance metric targets for the next two fiscal years. The final APPR, which is sent to Congress with the President’s budget, also reports all performance metric results for the fiscal year that ended in the previous September. The published APPR is posted on [www.performance.gov](http://www.performance.gov) for public review.

This Agency Financial Report, issued in November, includes some data on FY 2019 accomplishments. However, in November results for many of the FY 2019 performance indicators are not yet available. A full description of accomplishments and full year indicator results are in the APPR.

## COMMERCE SPECIFIC PLAN MONITORING

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The Department’s Chief Operating Officer, the Deputy Secretary, has established a series of meetings with the leads for select strategic objectives in the Department’s Strategic Plan. The meetings are used to review data on related performance indicators and progress on milestones.

Bureau-level metric review processes vary in approach and schedule but are systematic. Data on mission support initiatives (Human Resources, Acquisition, Financial Management, etc.) are tracked on an online dashboard and reviewed at quarterly meetings with the Chief Financial Officer/Assistant Secretary for Administration (CFO/ASA). The various “CXO” Councils (Human Resources, Information Technology, Acquisition, CFO) also review dashboards of metrics.

## AGENCY PRIORITY GOALS

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The GPRAMA requires agencies to establish Agency Priority Goals (APG). APGs set two-year targets for initiatives that are significant and would benefit from a well-orchestrated sprint. Most major departments have three to five APGs that are selected by top leadership and approved by OMB, an extension of the White House. Available data on the FY 2018/2019 APGs are in the Performance Summary section of this report. Quarterly performance indicator data on APGs and Cross-APGs (address multi-agency priorities) are posted to [www.performance.gov](http://www.performance.gov).

The Office of the Secretary began the process of developing APGs for FY 2020/2021 in January of 2019. The proposed APGs were submitted to OMB for their review in September of 2019.

## ORGANIZATION OF THE DEPARTMENT OF COMMERCE STRATEGIC PLAN

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The FY 2018 – FY 2022 Department of Commerce Strategic Plan is organized by goal areas, strategic objectives, strategies, and performance indicators. This structure is standard for federal agencies and is established in guidance from OMB. The goal areas are major elements of the Department's mission, i.e., Accelerate American Leadership, Enhance Job Creation, Strengthen U.S. Economic and National Security, Fulfill Constitutional Requirements and Support Economic Activity, and Deliver Customer-Centric Service Excellence. Strategic objectives (two to five per goal area) state specific important outcomes the Department aims to achieve, e.g., "Reduce and Streamline Regulations." Strategies are the approaches that will be used to achieve a strategic objective, e.g., "Streamline permitting processes." Performance indicators are measures of success, e.g., "cost savings from deregulatory action."

The chart on the following page summarizes the strategic goals and objectives established in the FY 2018 – FY 2022 Strategic Plan. The complete plan can be viewed online at <https://www.commerce.gov/about/strategic-plan>.



## SUMMARY OF STRATEGIC GOALS AND OBJECTIVES

Strategic Goal	Strategic Objectives
<b>Goal 1 –</b> Accelerate American Leadership	1.1 – Expand Commercial Space Activities
	1.2 – Advance Innovation
	1.3 – Strengthen Intellectual Property Protection
<b>Goal 2 –</b> Enhance Job Creation	2.1 – Increase Aquaculture Production
	2.2 – Reduce and Streamline Regulations
	2.3 – Strengthen Domestic Commerce and the U.S. Industrial Base
	2.4 – Increase U.S. Exports
	2.5 – Increase Inward Investment Into the United States
<b>Goal 3 –</b> Strengthen U.S. Economic and National Security	3.1 – Enforce the Nation's Trade Laws and Security Laws
	3.2 – Enhance the Nation's Cybersecurity
	3.3 – Reduce Extreme Weather Impacts
	3.4 – Deploy Public Safety Broadband
<b>Goal 4 –</b> Fulfill Constitutional Requirements and Support Economic Activity	4.1 – Conduct a Complete and Accurate Decennial Census
	4.2 – Provide Accurate Data to Support Economic Activity
<b>Goal 5 –</b> Deliver Customer-Centric Service Excellence	5.1 – Engage Commerce Employees
	5.2 – Accelerate Information Technology Modernization
	5.3 – Consolidate Functions for Cost Savings

# FY 2019 PERFORMANCE SUMMARY

## OVERVIEW

The performance indicators below are organized by the goal areas of the FY 2018 – FY 2022 Department Strategic Plan. The measures presented are a subset of the 150 measures that are tracked by the Department and bureaus. The indicators presented in this report were selected based on significance, the availability of FY 2019 data, and whether they are understandable to the general public. Full year data on FY 2019 were not available for many measures by the publication deadline for this report.

The Department's full set of performance metrics, trends, and final full year results can be found in the *Annual Performance Plan and Report* and the *Annual Budget Submission to Congress* posted for the public in February on [www.performance.gov](http://www.performance.gov) and <http://www.osec.doc.gov/bmi/budget>. All performance indicator results for FY 2019 should be assessed in light of the fact that most federal agencies were shut down for 35 days during the fiscal year.

Note that "NA" on a graph means: the measure was not tracked that year; the measure was calculated differently in that year; or the program/initiative is new.

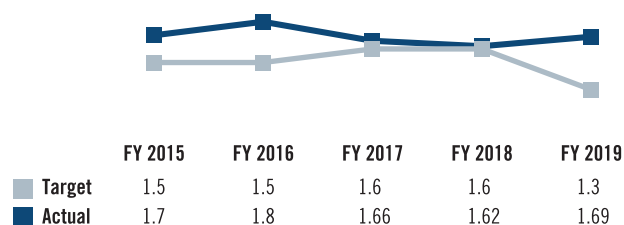
Measures that are an Agency Priority Goal (APG) will be identified with a gray star. ★

### Strategic Goal 1 – Accelerate American Leadership

The United States leads the world in research, invention, and innovation. To strengthen our leadership, the Department is supporting the growth of commercial space activities, investing in foundational research, and protecting intellectual property to ensure creators can be rewarded for their inventions.

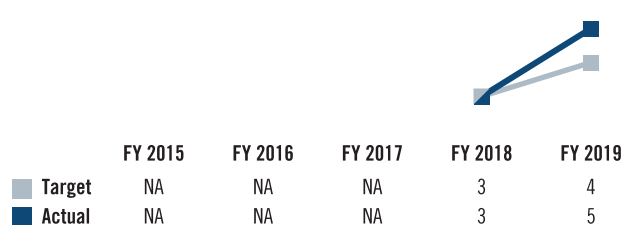
The following are some of the data the Department uses to assess its contribution to U.S. competitiveness.

#### Citation Impact of NIST Publications

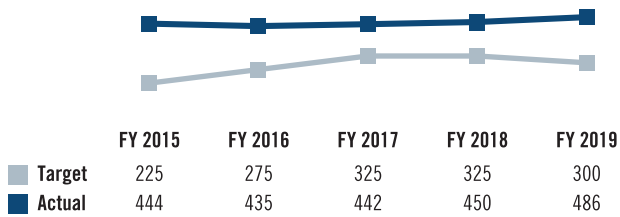


The National Institute of Standards and Technology (NIST) produces between 1,800 and 2,000 publications per year. This indicator demonstrates the average number of citations per publication, normalized for journal and discipline. The results show that NIST was able to consistently exceed its target, indicating that NIST produces useful and relevant scientific and technical publications. The target was kept flat for FY 2017 and FY 2018 with a reduction in FY 2019 reflecting budget levels.

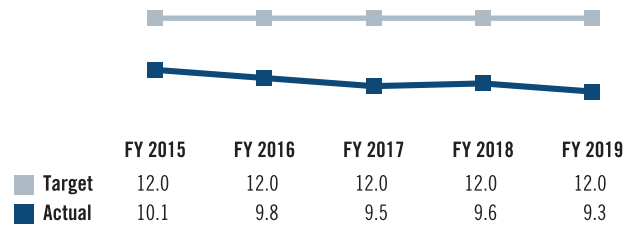
#### International Adoption of NIST Quantum SI Standards



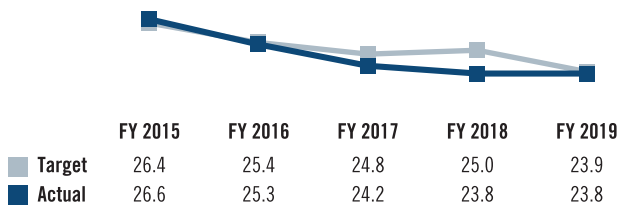
In May 2019, the redefinition of International System of Units (SI) took effect. NIST is playing a leading role in the transition from a classical to a quantum system of measurement. NIST is exploring the foundational limits of Quantum SI by integrating efforts in fundamental research, applied research, and dissemination of the SI units. The impact of this redefinition is improved scalability for measurement, more effective control of processes, and ultimately improved innovation.

**Number of Businesses Using NIST Research Facilities**

NIST promotes U.S. industrial leadership by partnering with industry and making their unique research facilities available to research and development staff from businesses. Access to these facilities and partnerships helps push U.S. business to the “bleeding edge” of innovation.

**Accelerate Trademark Processing –  
Trademark Average Total Pendency (Months)**

Marketing matters. USPTO quickly brands U.S. products so they benefit from their reputation for quality. The trend line shows incremental reduction in the time it takes to process a trademark.

**Accelerate Patent Processing –  
Patent Average Total Pendency (Months) (APG) ★**

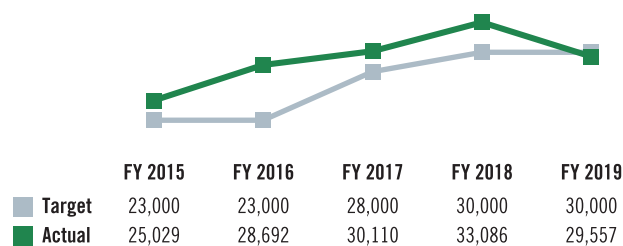
Accelerating patent processing helps businesses plan and bring innovation to market faster. The faster new ideas are commercialized, the better for the U.S. economy. A U.S. Patent and Trademark Office (USPTO) APG target was Average Total Pendency less than 24 months before September 30, 2019. The target was met.

**Strategic Goal 2 – Enhance Job Creation**

Job creation is fundamental to the mission of the Department. American workers thrive in an environment that fosters production and export of competitive products and services, utilization of secure digital technology, and streamlined regulations. The Department helps to create these conditions and American jobs through programs that promote U.S. exports and foreign direct investment (FDI). Goods and services exported supported 10.7 million well-paying U.S. jobs in 2016. In 2015, majority-owned U.S. affiliates of foreign companies directly employed 6.8 million Americans. The Department is also systematically reviewing regulations to reduce unnecessary burdens on businesses and provides technical assistance to help communities take advantage of digital markets.

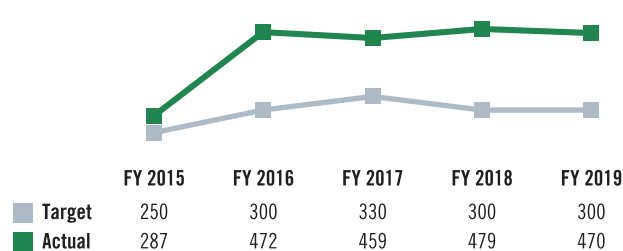
The following are a few of the performance indicators used to monitor the progress of Departmental programs designed to enhance job creation.

#### Number of U.S Exporters Assisted



The fastest growing markets are international markets. The International Trade Administration (ITA) helps U.S. businesses enter and navigate foreign markets. ITA provides market information and technical assistance to American businesses and is expanding its reach through the internet and online tools.

#### Number of Commercial Diplomacy/Advocacy Written Impact Narratives (WINS)



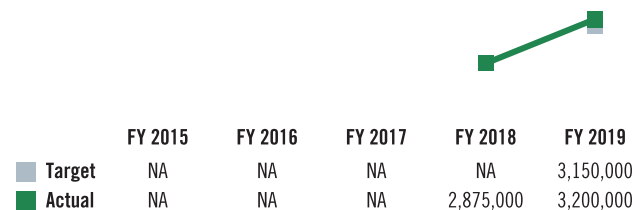
ITA routinely interacts with foreign governments to address trade problems and unfair trade practices impacting U.S. business interests and to level the playing field for U.S. companies competing for procurement opportunities overseas. ITA's commercial diplomacy/advocacy efforts unlock tens of billions of dollars of U.S. exports every year.

#### Project Impact on the Number of Hospitals, K-12 Schools, and Students in Areas where NTIA is Providing Broadband Project Support – Community Anchor Institutions\*

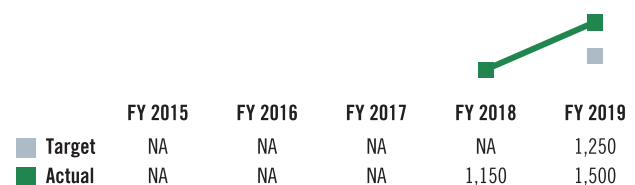


\* Community Anchor Institutions, e.g., libraries

#### Project Impact on the Number of Hospitals, K-12 Schools, and Students in Areas where NTIA is Providing Broadband Project Support – K-12 Schools

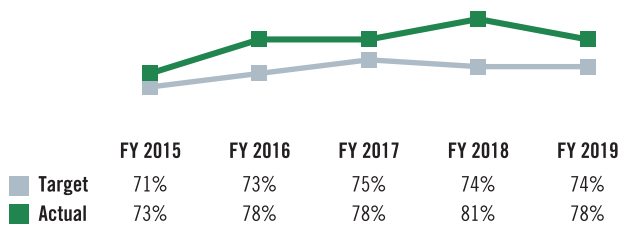


#### Project Impact on the Number of Hospitals, K-12 Schools, and Students in Areas where NTIA is Providing Broadband Project Support – Hospitals



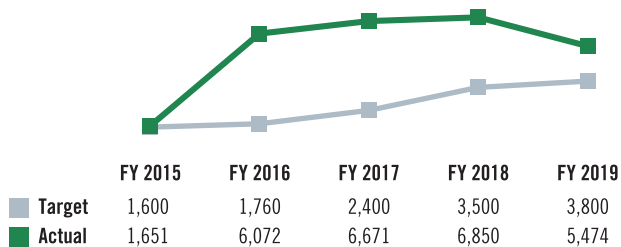
By providing broadband technical assistance and support, the National Telecommunications and Information Administration (NTIA) creates the foundation for state and local governments to attract broadband infrastructure investments. Broadband infrastructure leads to new jobs, better service delivery, and the creation of innovative technologies benefitting hospitals, schools, and communities.

### Percentage of U.S. Exporter Clients That Achieved Their Export Objectives



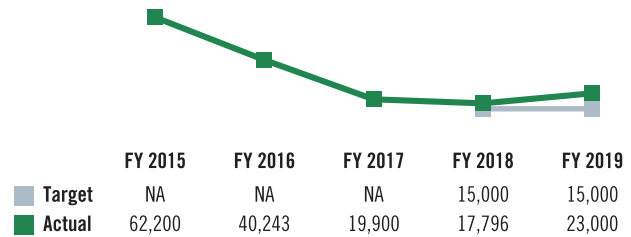
ITA's client survey results show that since FY 2016, over 75 percent of ITA's clients accomplished their export objectives.

### Number of Investment Clients Assisted



Foreign investment in the United States also supports American jobs. The SelectUSA program facilitates foreign investment by guiding foreign investors as they research U.S. locations and navigate federal, state, and local laws and regulations. As the program matures, SelectUSA has been able to exceed their target for clients assisted.

### Number of Fishermen, Seafood Processors, and Aquaculture Industry Personnel Who Modify Their Practices Using Knowledge Gained in Fisheries Sustainability and Seafood Safety



Ninety percent of U.S. seafood is imported; aquaculture has great potential to change that number and increase domestic seafood production and related jobs. The National Oceanic and Atmospheric Administration (NOAA) is helping realize that potential by sharing research and best practices. Actual and target levels reflect annual funding.

## Strategic Goal 3 – Strengthen U.S. Economic and National Security

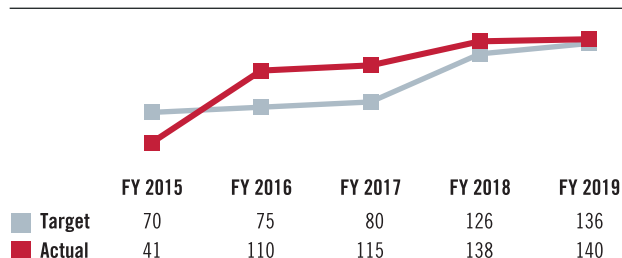
Economic security is national security. America is safer and more prosperous when our trading partners offer reciprocal trade environments, and when effective export controls and cybersecurity standards are enforced. Today, our Nation's economic prosperity and security are challenged by competitors and adversaries that engage in illegal trade practices, steal intellectual property, and engage in cybercrime.

Weather events also challenge economic security. The United States has sustained 254 weather disasters since 1980 where overall damages/costs reached or exceeded \$1 billion (including Consumer Price Index adjustment to 2019). The total cost of these 254 events exceeded \$1.7 trillion. In 2019 (as of October 8), there were 10 events in the United States with losses exceeding \$1 billion each.

Department bureaus operate on multiple fronts to protect Americans and the U.S. economy. The Department enforces compliance with trade laws, provides cybersecurity tools to thwart cybercrime, shares accurate weather information, and is deploying a first-responder broadband network that will protect lives and property.

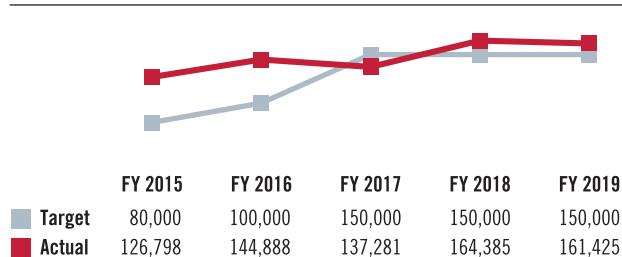
The Department measures its contribution to economic and personal safety; the following are a sample of those measures.

### Trade Barriers Removed, Reduced, or Prevented (Annual) (APG) ★



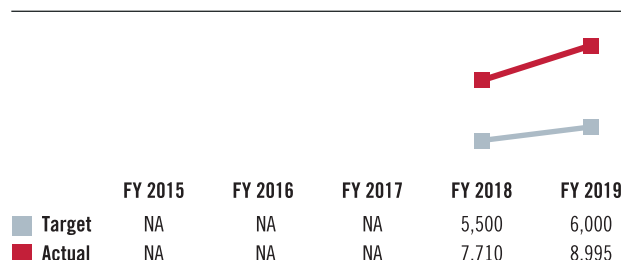
ITA safeguards and enhances the competitive strength of U.S. industries against unfair trade through the enforcement of U.S. antidumping duty and countervailing duty trade laws and trade agreements negotiated on behalf of U.S. industries. ITA carries on an active dialogue with businesses to identify these barriers and build strategies to remove them. When a barrier is removed an entire industry benefits, not just one business. Removing trade barriers was a FY 2018/2019 APG and the target for the goal has been exceeded.

### Number of Export Transactions Completed Under the New Authority of Commerce Export Licenses and License Exceptions



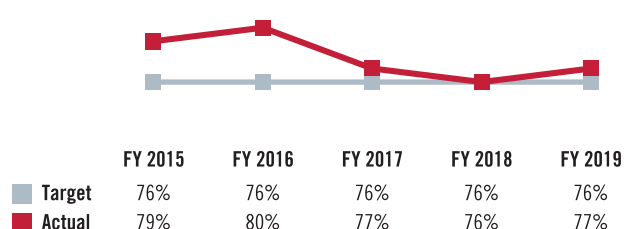
It is in the national interest to regulate the export of products that can be used as weapons or as part of weapons. The Bureau of Industry and Security (BIS) plays a critical and expanding role in that regulation, as evidenced by the trend data.

### Number of Companies and Organizations Exposed to NCCoE Produced Cybersecurity Practice Guides and Other Products



New cybersecurity standards will be ineffective if they are not disseminated and adopted. The performance indicator above measures the deployment of practical cybersecurity solutions to the public. The targets for FY 2018 and FY 2019 have been exceeded.

### Severe Weather Warnings for Flash Floods – Percentage of Accuracy

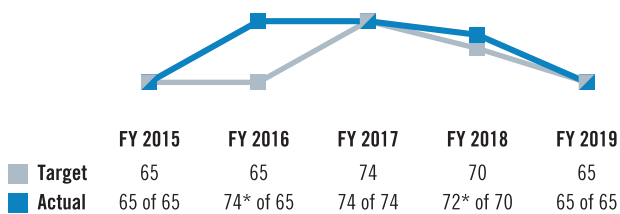


In FY 2019, flooding had a devastating impact on several communities. The impact can be reduced, particularly the impact on personal safety, with accurate forecasts, a NOAA priority. NOAA has been developing new capabilities to support local emergency managers during extreme weather events. Their FY 2018/2019 APG was *“By September 30, 2019, NOAA National Weather Service will improve decision support services by demonstrating a new flood inundation mapping capability serving 25 million people (i.e., 8 percent of the U.S. continental population) residing in flood-vulnerable freshwater basins and delivering an enhanced excessive rainfall outlook product that extends the lead time of high risk predictions from two to three days.”* All the milestones and targets in the **APG** ★ have been accomplished.

### Strategic Goal 4 – Fulfill Constitutional Requirements and Support Economic Activity

"We the People" is America's source of strength. As mandated in Article 1, Section 2 of the U.S. Constitution, every 10 years, the Department of Commerce conducts a nationwide count of every person living in the United States. Data from the 2020 Census will be used to allocate seats in the U.S. House of Representatives among the states. The demographic and housing data from the 2020 Census will also help the federal, state, local, and tribal governments make better decisions about how they spend taxpayer money. These datasets, along with other data and statistics developed by the Department, support research by the private sector and academic institutions, and inform critical business decisions across all sectors of the economy.

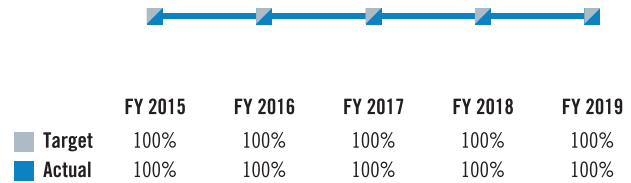
#### Bureau of Economic Analysis Timeliness: Reliability of Delivery of Economic Statistics (the number of scheduled releases issued on time)



\* The actual exceeds the target when additional statistics are released that were not in the original plan.

Timely, accurate data are essential to sound economic decision-making. Therefore, the Bureau of Economic Analysis's (BEA) culture focuses on producing statistics that are definitive and on schedule. Each fall, BEA publishes the schedule for the release of its economic data for the following year and then monitors the need for revisions and compliance with milestones. In FY 2019, the schedule was revised because of the December/January federal government shutdown. All the milestones in the new schedule were met; BEA continues to have an outstanding and longstanding record of releasing dependable economic data on time.

#### Census Bureau – Number of Principal Economic Indicators Released on Time



The Census Bureau also enjoys a strong track record for timely release of economic indicators. They met all their target dates in the revised FY 2019 schedule for the release of indicators.

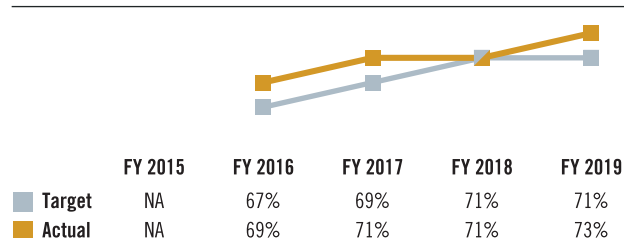
Their most important forthcoming release is the data from the 2020 Decennial. Therefore, the Census Bureau's FY 2018/2019 APG was "to conduct a complete and accurate 2020 Decennial Census U.S. population count by conducting the 2018 End-to-End Test and analyzing and incorporating the results, initiating In-Field Address Canvassing by September 30, 2019 and designing for optimal self-response with the nationwide target of 60.5 percent in 2020." All of the critical milestones for the goal have been achieved. **(APG) ★**



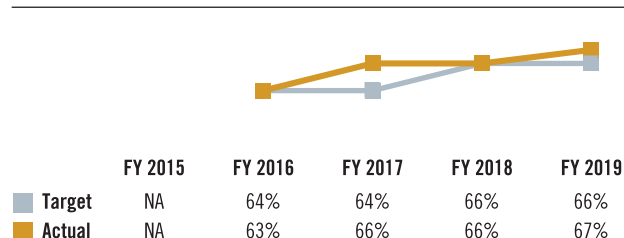
### Strategic Goal 5 – Deliver Customer-Centric Service Excellence

The Department cannot meet its performance targets in Strategic Goals 1 through 4 without quality, timely human resources, information technology (IT), and acquisition services. Success also requires a workforce that is passionate about delivering value to the American public. The President's Management Agenda directs federal agencies to increase the cost-effectiveness of services and improve human capital management. The Department is responding with strategies to improve service and efficiency using technology, and engaging employees by better aligning their time and efforts to the Department's priorities.

#### Employee Engagement Index – Viewpoint Survey



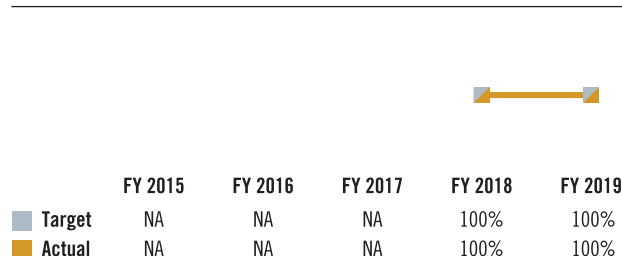
#### Inclusion Quotient – Viewpoint Survey



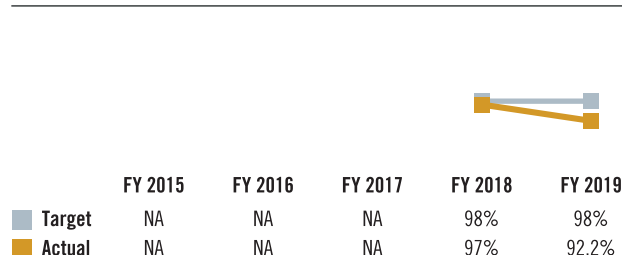
The Department remains above the government average for both the Employee Engagement Index and the Inclusion Quotient. The Employee Engagement Index measures the conditions that lead to engaged employee and are in three subcategories: Leaders Lead, Supervisors, and Intrinsic Work Experience. The Inclusion Quotient is built on the concept that individual behaviors, repeated over time, form habits that create an inclusive work environment. The Inclusion Quotient consists of 20 questions grouped into five habits of inclusion: Fair, Open, Cooperative, Supportive, and Empowering.

Based on the results of the Federal Employee Viewpoint Survey, Commerce remains one of the best places to work in the federal government.

#### Request-to-Award Acquisition Transactions Completed in 120 Days or Less



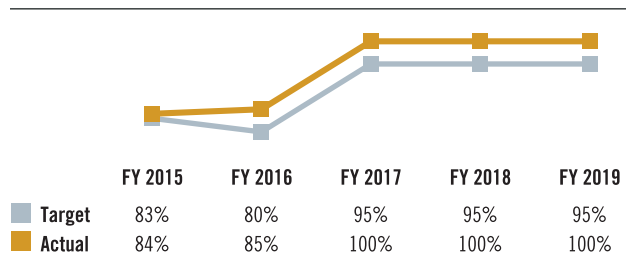
#### Normal Priority Personnel Actions Requests Completed On Time



Incrementally, mission support services, formerly provided by bureaus, are being consolidated in the Department's Enterprise Services (ES). Services are transitioned to ES when savings and efficiencies can be demonstrated. The acquisition and contracting activities of the new unit are maturing and achieving their performance targets. Select Human Resources functions are in the process of being moved incrementally. In FY 2019, ES began managing records on time and attendance, and benefits services.



### Cybersecurity Cross-Agency Priority (CAP) Goal Average for Department of Commerce



Efforts to modernize IT services and increase Commerce cybersecurity cannot easily be summarized in non-technical terms. The CAP Cybersecurity Score is a good composite view of efforts to prevent data security issues. Continuous Monitoring of Security Risks is in place, as is a "Trusted Internet Connection." In addition to these security measures, plans are on track for over a score of modernization efforts including a Grants Enterprise Management System; a new Business Administrative System; Statistical Production Modernization; and Census Enterprise Data Collection.

## LOOKING FORWARD

The Department of Commerce is committed to creating the conditions for economic growth and opportunity. The strategies for meeting that commitment are in the Strategic Plan for FY 2018–2022. It is a living plan that is modified as assessments provide lessons learned. However, based on the second year executing the plan, the structure and approach are working well. The basic infrastructure for increased emphasis on Commercial Space, Aquaculture, and removing trade barriers is in place and the focus is on increasing impact. The Decennial Census has been a focus at all levels of the organization in FY 2019; that focus will be pervasive and intense in FY 2020 as the April event approaches. Other challenges mentioned in Inspector General reports will be central to our management plan. Environmental Satellites, the Nationwide Public Safety Broadband Network, and Cybersecurity are inherently challenging and complex and will receive commensurate resources and disciplined program management.

The President's Management Agenda will continue to provide a framework for efforts to improve Information Technology (IT) Modernization; achieve Data Availability, Accountability and Transparency; and create a workforce for the 21st Century. In response to the President's agenda, there are increased efforts to replace legacy IT systems; employ data to assist businesses; and direct staff time and talents to the work that has the most value. New tools and datasets available on the Census and Bureau of Economic Analysis websites support both the goal of empowering businesses with data and reducing the resources needed to provide and use the data. Expanding web-enabled services will be a priority in the coming years.

Implementation of the Evidence Act of 2018 will be a priority. The required multi-year Learning Agenda and Annual Evaluation Plan will guide research, evaluation, and stakeholder consultation needed to build evidence on what policies and practices create the best "conditions for economic growth and opportunity." Data governance will be more structured to maximize the utility of Department data to both the public and private sector while maintaining privacy protections.

## BALANCING RISK AND OPPORTUNITY

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Departmental managers and leaders will continue to handle complex and risky mission and mission support activities, such as preparing for and responding to natural disasters, and managing secure IT systems. While it is not possible to eliminate all uncertainties in these types of projects, Department strategies for managing risk will continue to mature.

Enterprise Risk Management (ERM) orchestrates those strategies. The ERM program creates a forum to openly identify and discuss risks and develop mitigation plans. There are cascading roles of leadership and responsibility for ERM across the Department and its bureaus including a governance structure. The chartered Department Management Council focuses on managing the Department's top risks and challenges.

Governance and oversight processes produce: the Agency Risk Profile, Government Accountability Office (GAO) High-Risk List, and the Mission Critical Programs and Activities List. Aligned action plans heavily influence the allocation of leadership time and attention.

FY 2018 brought new federal emphasis on program management. In FY 2019 and continuing in FY 2020/2021, that tool will be used with increasing sophistication to execute Department initiatives on time, on budget, and on scope.

# MANAGEMENT CONTROLS

The Department's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). During FY 2019, the Department assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2019 was operating effectively and no material weaknesses were found in the design or operation of the internal controls. . . .

In addition, the Department conducted its assessment of the effectiveness of internal control over reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over reporting as of June 30, 2019 was operating effectively and no material weaknesses were found in the design or operation of the internal control over reporting. Furthermore, no material weaknesses related to internal control over reporting were identified between July 1 and September 30.

Based on reviews conducted by the Department, it has been able to determine that its financial systems are in conformance with the Federal Financial Management Improvement Act (FFMIA) of 1996.



Thomas F. Gilman  
Chief Financial Officer  
and Assistant Secretary for Administration  
November 15, 2019



Wilbur Ross  
Secretary of Commerce  
November 15, 2019

## FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) OF 1982

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The objective of the Department's management control system is to provide reasonable assurance that.

- Obligations and costs are in compliance with applicable laws;
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to Agency operations are properly recorded and accounted for, permitting accurate accounts, reliable financial reports, and full accountability for assets; and
- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

During FY 2019, the Department reviewed its management control system in accordance with the requirements of FMFIA, and OMB and Departmental guidelines.

### SECTION 2 OF FMFIA – INTERNAL MANAGEMENT CONTROLS

Section 2 of FMFIA requires that federal agencies report, based on annual assessments, any material weaknesses that have been identified in connection with their internal and administrative controls. Based on their FY 2019 evaluations, the Department's 11 bureaus signed, certified, and submitted their Statements of Assurance and can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office (GAO) and the Office of Inspector General (OIG), evaluations conducted by other federal agencies such as the Office of Personnel Management, and other specifically requested studies. The diverse reviews that took place during FY 2019 that were key to the organization provide assurance that Department systems and management controls comply with standards established under FMFIA.

The revised Appendix A to OMB Circular A-123, *Management of Reporting and Data Integrity Risk*, expands assurance for internal controls over reporting beyond finance. In preparing the Department's statement of assurance, attention was given to activities related to the Digital Accountability and Transparency Act of 2014 (DATA Act), OIG Top Management Challenges, GAO High Risk List, performance reporting, strategic plans and performance metrics, real property and asset management, and human resource reporting. Controls related to risks in the Department's Risk Profile were also considered.

### SECTION 4 OF FMFIA – INTERNAL CONTROLS OVER FINANCIAL MANAGEMENT SYSTEMS

The Department has reported no material weaknesses under FMFIA Section 4 in recent years. Based on reviews conducted by the Department and its bureaus for FY 2019, the financial systems in the Department are compliant with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996

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Under FFMIA, the Department is required to have financial management systems that comply with federal financial management system requirements, federal accounting standards, and the USSGL at the transaction level. In FY 2019, the Department remained in compliance with FFMIA.

## BIENNIAL REVIEW OF FEES

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OMB Circular A-25 Revised, *User Charges* (July 8, 1993), requires the biennial review of agency programs to determine whether fees should be charged for government goods or services, and to ascertain that existing user charges are adjusted to reflect unanticipated changes in costs or market values.

The Department conducts a review of its programs at least biennially. With the exception of the International Trade Administration (ITA), the Department is in compliance with the requirement to adjust its fees to meet the OMB Circular A-25 Revised requirement of full-cost recovery for user charges.

OMB has granted ITA an exception to the full cost recovery provisions of OMB Circular A-25 Revised for the user fees that ITA charges to small and medium enterprises until September 30, 2019. As ITA continues to review and update its fee structure, it is working toward improving data collection capabilities with regard to sensitivity analysis and revenue projections, with the goal of moving toward a model that more fully recovers the costs of the services it provides.

## REPORT ON OIG AUDIT FOLLOW-UP

This report shows audit follow-up activity on OIG audits, as well as the amount of potential monetary benefits the OIG found could be achieved through implementing open recommendations in these reports. The report includes only audits for which there has been resolution, i.e., management and the OIG have agreed on an action plan. Reports are closed when final action has been taken to implement all recommendations.

### SUMMARY OF ACTIVITY ON AUDIT REPORTS OCTOBER 1, 2018 THROUGH SEPTEMBER 30, 2019

	NUMBER OF REPORTS <sup>1</sup>	POTENTIAL MONETARY BENEFITS OF OPEN RECOMMENDATIONS <sup>2</sup>
Beginning Balance	19	\$ 18,070,602
New Reports	10	10,442,348,662 <sup>3</sup>
Total Reports Open During the Period	29	10,460,419,264
Total Reports Closed During the Period <sup>4</sup>	7	(1,863,311,662)
Ending Balance	22	\$ 8,597,107,602

<sup>1</sup> The table includes Performance Audits, Evaluations, and Inspections. Audits comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions. Evaluations and inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or a criminal investigation.

<sup>2</sup> In some audits, the OIG identifies potential monetary benefits that could be realized when or if the recommendations are implemented. Potential Monetary Benefits of open recommendations include Questioned Costs and Funds to Be Put to Better Use.

- **Questioned Costs:** This is a cost questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.
- **Funds to Be Put to Better Use:** This dollar value results from an OIG recommendation that funds could be used more efficiently if Departmental Management took action to implement and complete the recommendation. Such actions may include (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the Department, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

<sup>3</sup> Most of the Potential Monetary Benefits come from one recommendation related to the merger of two environmental satellite programs (\$8,579,037,000 estimated Funds Put to Better Use for recommendation #5 in OIG-18-021).

<sup>4</sup> The Potential Monetary Benefits amount in this row includes potential monetary benefits of recommendations that were closed even though the corresponding reports remained open.

# FINANCIAL MANAGEMENT AND ANALYSIS

## INTRODUCTION

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Under the Secretary's leadership, the Department is continuing to give the highest priority to providing accurate financial data to its internal and external customers, and to its accountability for all assets. Ensuring that there are strong internal controls throughout the Department remains a priority. The Department has created a financial management environment that complies with federal laws and regulations and that provides its executives with timely, accurate financial and performance information. This is evidenced with the Department continuing to receive unmodified audit opinions, maintaining a single integrated financial system, and continuing its compliance with the Federal Financial Management Improvement Act (FFMIA).

Highlights of accomplishments for FY 2019 and future initiatives are discussed further below.

## FINANCIAL MANAGEMENT SYSTEMS

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The Department maintains an FFMIA-compliant financial management system, Commerce Business Systems (CBS), which provides reliable, timely information within a sophisticated security infrastructure. The system is capable of producing both financial and budget reports from information generated within the financial management system. CBS consists of a Core Financial System, including the Commerce Purchase Card System and the Budget and Execution Data Warehouse. CBS is interfaced with the Electronic Travel System (E2), the SmartPay3 bankcard system, the U.S. Department of Agriculture's National Finance Center Payroll System, and the U.S. Department of the Treasury's (Treasury) Automated Standard Application for Payments.

The financial information from CBS is integrated in the Corporate Database for consolidated financial reporting, resulting in a single integrated financial management system. The Corporate Database is a commercial, off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database is an integrated solution that provides financial statements and Adjusted Trial Balances reported at the Department, bureau, and Treasury Appropriation/Fund Group level. It also provides the ability to perform data analysis and produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

The Department continues to participate in a government-wide work group for Government Invoicing (G-Invoicing), a Treasury-led initiative to standardize the interagency agreement process across the government. The Department participates in this work group to help guide the implementation of the initiatives across the government as well as to plan for the changes needed to CBS so that the Department is ready to implement by the mandatory date. Additionally, the Department remains dedicated to providing quarterly submissions to meet the Digital Accountability and Transparency Act (DATA Act) requirements, as well as addressing any necessary modifications as required.

During FY 2019, the Department accomplished the following initiatives.

- Submitted G-Invoicing agency implementation plan to Treasury;
- Worked with the Office of Management and Budget (OMB) and Treasury to determine a path forward for the Business Applications Solution (BAS) project;



- Obtained release from OMB and Treasury from OMB M-13-08, which required agencies to partner with a federal shared service provider for financial management system modernization projects;
- Released a draft request for proposal (RFP) and later a request for proposal to industry seeking proposals for financial, acquisition, property system modernizations and data warehouse capabilities;
- Completed changes to the CBS to implement the interface files to and from the SmartPay3 tool, the General Services Administration (GSA)-led initiative to transition government purchase and travel cards from the current provider to a new provider;
- Implemented Mass Close functionality in E2 at bureaus. Mass Close functionality provides ability to close multiple E2 Travel open obligations in one batch process;
- Continued Tier 2/production support operations for E2;
- Began implementation of E2 support functionality for additional employees due to the Census Decennial (approximately 500 thousand new travelers);
- Completed analysis and requirements activities to determine impacts of SmartPay3 on E2; worked with E2 vendor to make necessary changes to E2;
- Conducted requirements and design activities for Business Intelligence (BI) solution to meet the Department's needs for DATA Act metrics reporting;
- Successfully lead the Department in quarterly DATA Act submissions to Treasury;
- Began requirements, design, and development activities for Annual Comparability Index (ACI) Process Re-engineering, which is part of the Pay for Performance System. The new ACI system will compare federal civil service salaries and those of the private sector and calculate eligible CAPS (Commerce Alternative Personnel System) employees' ACI salary rates and pay; and
- Conducted operations and maintenance activities for the Department's Chief Financial Officer/Assistant Secretary for Administration (CFO/ASA) Dashboard application. The CFO/ ASA Dashboard provides a Department-wide, executive-level overview of the Department's highest priority and highest risk mission and administrative initiatives.

In FY 2020 and beyond, the Department will continue its efforts to enhance its financial systems. The Department plans to accomplish the following.

- Conduct technical evaluation and source selection activities of BAS RFP responses;
- Award BAS contract and begin implementation activities;
- Continue to integrate with Treasury on planning and implementation activities and provide their Quality Service Management Offices team with regular status updates regarding the BAS project;
- Support E2 functionality for Census Decennial employees (approximately 500 thousand new travelers);
- Provide operations and maintenance support activities for the SmartPay3 interface files for CBS;
- Work with CWTsatoTravel to design, build, and deploy new E2 travel data analytics capabilities in conjunction with other agency E2 customers;
- Add new Unique Entity Id (UEI) to CBS and interfaces for C.Suite and Central Contractor Registration/System for Award Management (CCR/SAM) vendors to replace Data Universal Numbering System (DUNS);



- Continue working with OMB and Treasury to determine the next steps for the BAS project;
- Continue design, development, and testing activities for a BI solution to meet the Department's needs for DATA Act metrics reporting;
- Continue testing activities for G-Invoicing; and
- Continue National Oceanic and Atmospheric Administration (NOAA) and National Institute of Standards and Technology (NIST) hardware refresh activities.

## FINANCIAL REPORTING AND POLICY

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The Department accomplished the following initiatives during FY 2019:

- Bureaus identified and reported improper payments data to the Department quarterly, including recaptures of improper payments data, identified reasons for improper payments, and continually implemented appropriate actions to minimize future improper payments. For more information on the Department's payment integrity efforts during FY 2019, see the *Payment Integrity* subsection included in *Other Information*;
- Each of the Department's bureaus/reporting entities updated or prepared in FY 2019 their scheduled program/activity improper payment risk assessments as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix C, *Requirements for Payment Integrity Improvement*. The Department's reporting entities' improper payment risk assessments of their programs/activities are prepared over a one to three year cycle depending on the size of the reporting entity, and also include assessments of the control, procurement, and grants management environments. The Department's improper payment risk assessments are now in the continuous process stage of being updated/prepared every three years, unless significant changes occur, in which case an assessment will be updated more frequently. For more information on the Department's efforts during FY 2019 regarding improper payments risk assessments, see the *Payment Integrity* subsection included in *Other Information*;
- Adjusted the Department's civil monetary penalties for inflation in February 2019, in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. For more information on the Department's civil monetary penalties as of March 1, 2019, see the *Civil Monetary Penalties' Adjustments for Inflation* subsection included in *Other Information*;
- Implemented, effective FY 2019, the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 49, *Public-Private Partnerships: Disclosure Requirements*, which "establishes principles to ensure that disclosures about Public-Private Partnerships (P3) are presented in the reporting entity's general purpose federal financial reports (GPFFR)." As a result of the evaluations conducted by the Department, it was determined that there are three arrangements or transactions to be included in the notes to the financial statements as a P3;
- Implemented, effective FY 2019, FASAB's SFFAS 53, *Budget and Accrual Reconciliation (BAR)*, which amended requirements for a reconciliation between budgetary and financial accounting information established by FASAB's SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. To increase informational value and usefulness, and to support the government-wide financial statement reconciling net operating cost to the budget deficit, this statement provides for BAR to replace Note 23, *Reconciliation of Net Cost of Operations to Budget*, in the financial section of this report. BAR explains the relationship between an entity's net outlays on a budgetary basis and its net cost of operations during the reporting period;

- Implemented, effective FY 2019, FASAB's SFFAS 55, *Amending Inter-Entity Cost Provisions*, which sets forth guidance for the Department to: (1) continue to record inter-entity costs (imputed costs) for business-type activities; (2) continue to record inter-entity costs for personnel benefits and Treasury Judgment Fund settlements; and (3) implement optional reporting of inter-entity costs for non-business type activities. Additional information regarding the Department's FY 2019 inter-entity costs (and related imputed financing sources from cost absorbed by others) is provided in Notes 1.R and 1.S of the financial section of this report; and
- The Department performed the Year 2 evaluation of FASAB's SFFAS 47, *Reporting Entity*, which sets forth guidance to include, in the Department's financial statements or as footnote disclosures, "all organizations (1) budgeted for by elected officials of the federal government; (2) owned by the federal government; or (3) controlled by the federal government with risk of loss or expectation of benefits," and which also further provides guidance on footnote disclosure requirements for significant relationships with other parties. As a result of the FY 2019 evaluation conducted by the Department, there continues to be one organization to be included in the notes to the financial statements as a disclosure entity.

In FY 2020 and beyond, the Department plans to accomplish the following amongst other items:

- Adjust the Department's civil monetary penalties for inflation in January 2020, in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015;
- Continue annual evaluations of SFFAS 47, *Reporting Entity*, and SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*; and
- Begin the implementation, effective FY 2021, of FASAB's SFFAS 54, *Leases*, which revises the financial reporting standards for federal lease accounting. It provides a comprehensive set of lease accounting standards to recognize federal lease activities in a reporting entity's general purpose federal financial reports and includes appropriate disclosures.

## GRANTS MANAGEMENT

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Under the CFO/ASA, the Office of Acquisition Management (OAM) is responsible for the Department's enterprise-wide grants management policy, projects, and oversight. The Department's focus is to standardize policy and procedures for its financial assistance programs and to strengthen compliance. In addition, OAM's targeted efforts continue to transform the decentralized Department grants management community into an effective and efficient partnership.

In coordination with the Department's Office of the Chief Information Officer and the Office of Financial Management, OAM is overseeing the development of a Grants Enterprise Management Solution (GEMS) which will be a common grants management system that will replace the currently separated grants management systems in use by the Department's three major grant issuing bureaus, NOAA, NIST, and Economic Development Administration (EDA). The GEMS project has completed both the Concept Initiation and Conceptual Phases; the project's development phase is expected to extend through FY 2023 with EDA, NIST, and NOAA expected to begin transitioning from their current grants management systems to GEMS in FY 2020.

OAM's Financial Assistance Policy and Oversight Division (FAPOD) coordinates the Department's implementation of all applicable statutes, regulations, Executive Orders, and OMB circulars, as well as the provisions of 2 CFR, Part 200 (Uniform Guidance), to establish more efficient and user-friendly requirements for both Department awarding units and recipients. OAM/FAPOD collaborates with partners in the Department's financial assistance community to review and update the Department's Grants and Cooperative Agreements Manual (Grants Manual) as well as develop updated Financial Assistance Standard Terms and Conditions (ST&C) consistent with the issued guidance—both the Grants Manual and the ST&Cs undergo annual reviews and updates.

FAPOD conducts Grants Management Reviews to evaluate the internal grants administration policies and procedures of the operating units, including field or remote locations. NIST, NOAA, and EDA grants operating units are evaluated once every three years and more frequent reviews are scheduled when justified by operational issues. The scope of the review includes but is not limited to compliance with applicable public laws, regulations, OMB circulars, the Grants Manual, as well as internal grants administration policies of the operating unit.

OAM/FAPOD is an active member of the Financial Assistance Committee for E-Government (FACE); the authority of the FACE flows from the Award Committee for E-Government, a governance group chartered under the Chief Acquisition Officers Council. OAM/FAPOD participates in numerous FACE subcommittees that represent the needs of the financial assistance community, serving as the community voice for the composition, review and feedback on financial assistance policy guidance; the analysis and reporting of outcomes from the Integrated Award Environment portfolio, grants.gov, and other government-wide systems; and, the requirement development and collection of government-wide financial assistance data—which supports the implementation of lessons learned from the DATA Act Pilot Program Report to Congress and the President's Management Agenda Cross-Agency Priority Goal #8, Results-Oriented Accountability for Grants.

## HUMAN CAPITAL

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The Department of Commerce remains committed to building and maintaining a highly skilled and diverse workforce. Acknowledging that people are the key to mission accomplishment, the Department continues to implement and utilize various recruitment programs to attract diverse and qualified employees. In FY 2019, approximately 1,287 veterans and 1,749 people with disabilities were hired, of which 12 were veterans and 13 were people with disabilities in the accounting and budgeting occupations. The Department hosted approximately 571 Pathways Program Interns, Recent Graduates, and Presidential Management Fellows. Of these, approximately 10 served as accountants, budget analysts, and auditors within finance and accounting offices in the Bureau of Economic Analysis, International Trade Administration, NIST, NOAA, and the Office of Inspector General, including four new hires and one who was converted to a permanent position.

Telework is also used by the Department to position itself as an “employer of choice” in attracting and retaining qualified employees, facilitating employee work-life balance, increasing employee satisfaction and engagement, and potentially increasing employee productivity. In FY 2019, approximately 42 percent of Departmental employees (77 percent of accounting and budgeting employees) engaged in telework. Additionally, the results of the government-wide Federal Employee Viewpoint Survey are analyzed every year to put strategies in place so that the Department remains an employer of choice for the next generation of civil servant. Over the years, the Department has steadily continued to increase its Employee Engagement Index score, with the most recent score in 2019 being 73 percent, five percentage points above government. The Department also takes pride in ranking third out of 17 large federal agencies in the 2018 Best Places to Work, the most comprehensive and authoritative rating of employee satisfaction and commitment in the federal government provided by the Partnership for Public Service.

In FY 2019, Enterprise Services (ES) supported the Department's 2018–2022 Strategic Plan (Strategic Goal 5 – Deliver Customer-Centric Service Excellence) by continuing the progress toward implementing intra-departmental, multi-function enterprise service operations in the areas of human resources (HR), information technology (IT), acquisitions, and financial management to the Office of the Secretary (OS) and the Department's 11 bureaus. In support of the Department's HR program, ES continued to deliver Personnel Action Request, payroll, and benefits services to over 20 thousand employees across the Department. Additionally, ES began service delivery expansion to include time and attendance and eOPF support services. ES also continued enhancing the Department's first ever ES Portal, designed in FY 2018 to be a one-stop shop for HR, IT, and acquisitions information and services. Over the past year, ES strengthened its communication and service management capabilities to continue to provide services to a growing customer base. The ES model focused on improving the customer experience and providing greater value to its clients. Efforts will continue in FY 2020, and beyond, to transition additional HR services (e.g., talent acquisition) and functions (e.g., financial management) to the ES service delivery model.

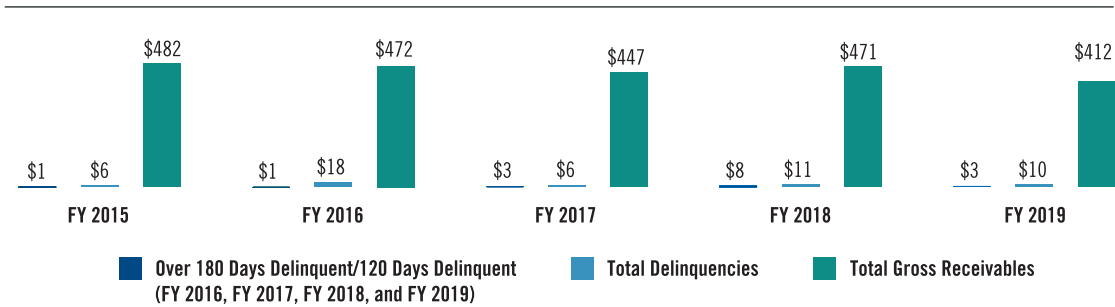
The Department continued making progress in the goals and priorities outlined in its Human Capital Operating Plan (HCOP) for 2018–2022. The Department's HCOP is a four-year plan with annual reassessments, providing processes and measures for the implementation of human capital strategies essential to successfully carry out the Agency's Strategic Plan and Performance Plan. Over 60 percent of action items supporting the four HCOP goals (Workforce Analysis, Empower and Engage Commerce Employees, Improve Internal and External Service Delivery Processes, and Maximize Employee Performance) are completed and over 50 percent of action items supporting the two HCOP priorities (Deploying Communication Tools and Securing Technological Solutions for Human Capital Analysis) are completed. Additionally, in May 2019, the Department completed its inaugural annual Human Capital Review with the Office of Personnel Management. This review took the form of an open discussion on numerous human capital initiatives including associated risks, barriers, and successful practices.

## RECEIVABLES WITH THE PUBLIC AND DEBT COLLECTION MANAGEMENT

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The Department provides policies and procedures for the management and collection of non-tax debts owed to Departmental entities in its debt collection regulations, *Commerce Debt Collection*. These regulations adopt and incorporate all provisions of the Federal Claims Collections Standards (FCCS), which were jointly published by Treasury and the U.S. Department of Justice. The Department's debt collection regulations supplement FCCS by prescribing procedures, consistent with FCCS, as necessary and appropriate for Departmental debt collection management operations. FCCS clarifies and simplifies federal debt collection procedures and reflects changes under the Debt Collection Improvement Act of 1996 and the General Accounting Office Act of 1996. The Department also provides guidance for debt collection management in its *Credit and Debt Management Operating Standards and Procedures Handbook*, to ensure that consistent debt collection management practices are established and followed throughout the Department, and to establish and enhance Departmental debt collection management practices.

Applicable bureaus prepared, in 2019, Credit Management and Debt Collection Plans, which set forth their plans for effectively managing credit extension, account servicing, and debt collection management. These plans are updated at least every five years.

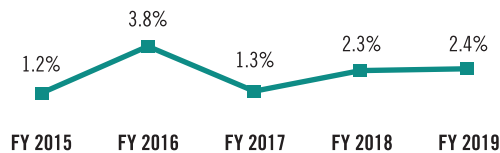
**GROSS RECEIVABLES WITH THE PUBLIC AS OF SEPTEMBER 30<sup>1</sup>** *(In Millions)*

<sup>1</sup> The source for this table's data is the Department's Treasury Report on Receivables (TROR). There are reporting methodology differences between the gross receivables in TROR and gross receivables reported in the Department's notes to the financial statements; therefore, the amounts will not agree.

The DATA Act required, effective FY 2016, that agencies report to Congress any instance in which federal agencies fail to refer legally enforceable, non-tax debts that are greater than 120 days delinquent to the Treasury Offset Program for administrative offset.

The Department's total gross receivables with the public decreased \$59 million, or 12.5 percent, from \$471 million as of September 30, 2018 to \$412 million as of September 30, 2019, as reported on the Department's Treasury Report on Receivables, which is the primary means for the Department to provide comprehensive information to Treasury on its receivables with the public. Total delinquencies with the public, as a percentage of total gross receivables with the public, increased from 2.3 percent as of September 30, 2018 to 2.4 percent as of September 30, 2019. Receivables with the public that were 120 days or more delinquent as a percentage of total gross receivables with the public, decreased from 1.7 percent as of September 30, 2018 to 0.7 percent as of September 30, 2019.

Prescreening procedures, account-servicing standards, determined collection of delinquent debt, and extensive referrals of delinquent debt to Treasury have all contributed to effective Departmental debt collection management. The Debt Collection Improvement Act of 1996 established Treasury as the debt collection agency for eligible federal agency debts. Once receivables are delinquent by 120 days (effective FY 2016) or more, in accordance with Treasury requirements, such receivables are referred to Treasury's Bureau of the Fiscal Service for collection through its Cross-servicing Program and/or its Treasury Offset Program.

**TOTAL DELINQUENCIES WITH THE PUBLIC AS A PERCENTAGE OF TOTAL GROSS RECEIVABLES AS OF SEPTEMBER 30**

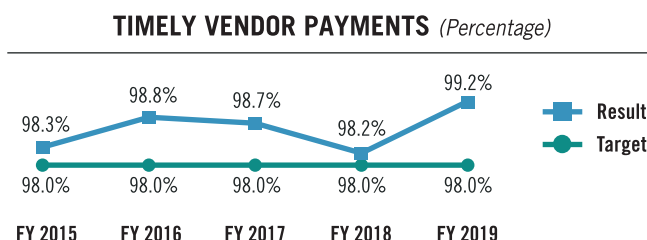


## PAYMENT PRACTICES

### PROMPT PAYMENT

The Prompt Payment Act of 1982 requires agencies to pay their bills to vendors on a timely basis (within 30 days of receipt of relevant documents) and to pay interest penalties when payments are made late. The Department closely monitors its prompt payment performance, and the bureaus submit quarterly reports of prompt payment performance to the Deputy CFO.

The Department's prompt payment performance increased from 98.2 percent in FY 2018 to 99.2 percent in FY 2019. The number of invoices paid late decreased from 3,196 in FY 2018 to 1,365 in FY 2019. The Department continues to focus on improving its prompt payment percentage by working closely with its bureaus to identify opportunities for new or improved business processes. OMB Memorandum M-15-19, *Improving Government Efficiency and Saving Taxpayer Dollars Through Electronic Invoicing* (July 17, 2015), required federal agencies to transition to electronic invoicing for appropriate federal procurements by the end of FY 2018. The Department is currently taking steps to transition from its primary financial management system used by most of the bureaus to a commercial off-the-shelf (COTS) product for those bureaus. The Department intends to adopt the COTS product's solution for an electronic invoice processing system, when it becomes available. The U.S. Patent and Trademark Office (USPTO), after reviewing various electronic invoicing options, had a solution in place at the end of FY 2018 and implemented a pilot in FY 2019, where select vendors were transitioned to electronic invoicing. USPTO will define and implement a strategy for additional vendor adoption in FY 2020.



OMB Memorandum M-17-26, *Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda* (June 15, 2017), encourages agencies to accelerate payments, to the best of their ability, to small businesses and prime contractors with small business subcontractors. This did not change an agency's responsibility to comply with the Prompt Payment Act and OMB's implementing regulations thereto (5 CFR Part 1315, *Prompt Payment*).

### BANKCARDS

The Department remains committed to the use of bankcards (purchase cards) as a means to improve mission support by streamlining the procurement and payment processes and by reducing administrative costs. The Department uses a data analytics program to review purchase and travel card transactions Department-wide to identify patterns, trends, and anomalies for possible further investigation. The Department works with its bureaus to implement corrective actions, monitor internal controls, perform data analytics, and conduct necessary reviews and tests to ensure proper internal controls are in place. The Department began using GSA's SmartPay3 in May 2019 as its bankcard program and is continuing its initiatives for more effective training, oversight, and risk management reviews to enhance the purchase card program.

## LIMITATIONS OF THE FINANCIAL STATEMENTS

The principle financial statements in the financial section have been prepared to report the overall financial position and results of operations of the Department, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the generally accepted accounting principles (GAAP) for federal entities and the formats prescribed in OMB Circular A-136, *Financial Reporting Requirements*, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. government.

# ANALYSIS OF FY 2019 FINANCIAL CONDITION AND RESULTS

## FINANCIAL HIGHLIGHTS

<i>(Dollars in Thousands)</i>	Percentage Change	FY 2019	FY 2018	
<b>Condensed Balance Sheets:</b>				
<b>As of September 30, 2019 and 2018</b>				
<b>ASSETS:</b>				
Fund Balance with Treasury	4%	\$ 29,957,914	\$ 28,794,045	
General Property, Plant, and Equipment, Net	1%	16,481,013	16,286,411	
Direct Loans and Loan Guarantees, Net	-13%	398,770	459,277	
Investments, Net	21%	7,569,381	6,244,436	
Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net	70%	3,408,729	2,009,841	
Other	2%	394,743	386,574	
<b>TOTAL ASSETS</b>	<b>7%</b>	<b>\$ 58,210,550</b>	<b>\$ 54,180,584</b>	<b>TOTAL ASSETS</b> <i>(In Billions)</i> \$58.21 \$54.18  FY 2019 FY 2018
<b>LIABILITIES:</b>				
Unearned Revenue	2%	\$ 1,679,251	\$ 1,648,025	
Federal Employee Benefits Liabilities	5%	927,714	881,992	
Accounts Payable	13%	2,321,133	2,049,213	
Accrued Payroll and Annual Leave	15%	685,310	596,920	
Debt to Treasury	-13%	395,369	452,563	
Liability to General Fund of the U.S. Government for Deficit Reduction	21%	7,569,382	6,244,436	
Accrued Grants	8%	140,196	129,678	
Other	5%	299,277	284,222	
<b>TOTAL LIABILITIES</b>	<b>14%</b>	<b>\$ 14,017,632</b>	<b>\$ 12,287,049</b>	<b>TOTAL LIABILITIES</b> <i>(In Billions)</i> \$14.02 \$12.29  FY 2019 FY 2018
<b>NET POSITION:</b>				
Unexpended Appropriations	24%	\$ 11,314,698	\$ 9,091,775	
Cumulative Results of Operations	0.2%	32,878,220	32,801,760	
<b>TOTAL NET POSITION</b>	<b>5%</b>	<b>\$ 44,192,918</b>	<b>\$ 41,893,535</b>	<b>TOTAL NET POSITION</b> <i>(In Billions)</i> \$44.19 \$41.89  FY 2019 FY 2018
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>7%</b>	<b>\$ 58,210,550</b>	<b>\$ 54,180,584</b>	
<b>Condensed Financing Sources:</b>				
<b>For the Years Ended September 30, 2019 and 2018</b>				
Appropriations Received, Net of Reductions	1%	\$ 12,363,492	\$ 12,188,389	
Imputed Financing Sources from Cost Absorbed by Others	15%	346,178	300,335	
Transfer In of Auction Proceeds from Federal Communications Commission	-80%	1,155,251	5,895,159	
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction	-78%	(1,324,946)	(5,908,248)	
Other	76%	335,602	190,954	
<b>TOTAL FINANCING SOURCES</b>	<b>2%</b>	<b>\$ 12,875,577</b>	<b>\$ 12,666,589</b>	<b>TOTAL FINANCING SOURCES</b> <i>(In Billions)</i> \$12.88 \$12.67  FY 2019 FY 2018

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(continued from previous page)

<i>(Dollars in Thousands)</i>	Percentage Change	FY 2019	FY 2018	
<b>Condensed Statements of Net Cost:</b>				
<b>For the Years Ended September 30, 2019 and 2018</b>				
<b>Condensed Statements of Net Cost:</b>				<b>NET COST OF OPERATIONS</b> <i>(In Billions)</i>
Gross Departmental Costs	16%	\$ 14,957,439	\$ 12,897,387	\$10.58
Less: Earned Revenue	2%	(4,381,245)	(4,295,280)	\$8.60
<b>NET COST OF OPERATIONS</b>	<b>23%</b>	<b>\$ 10,576,194</b>	<b>\$ 8,602,107</b>	<b>FY 2019 FY 2018</b>
<b>Selected Budgetary Information:</b>				
<b>For the Years Ended September 30, 2019 and 2018</b>				
				<b>NEW OBLIGATIONS AND UPWARD ADJUSTMENTS</b> <i>(In Billions)</i>
New Obligations and Upward Adjustments	-19%	<u>\$ 17,873,423</u>	<u>\$ 21,920,632</u>	\$17.87 \$21.92 <b>FY 2019 FY 2018</b>
				<b>OUTLAYS, NET</b> <i>(In Billions)</i>
Outlays, Net	31%	<u>\$ 11,305,497</u>	<u>\$ 8,612,798</u>	\$11.31 \$8.61 <b>FY 2019 FY 2018</b>

## COMPOSITION OF ASSETS AND ASSETS BY RESPONSIBILITY SEGMENT

The composition and distribution by responsibility segment (by percentage) of the Department's assets was consistent from September 30, 2018 to September 30, 2019.

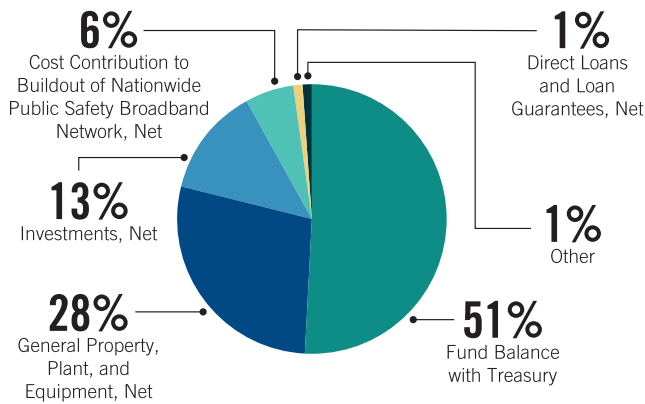
Departmental assets amounted to \$58.21 billion as of September 30, 2019.

- **\$29.96 billion of Fund Balance with the U.S. Department of the Treasury** (Treasury) is the aggregate amount of funds available to make authorized expenditures and pay liabilities.
- **\$16.48 billion of General Property, Plant, and Equipment (PP&E), Net of Accumulated Depreciation**, includes \$8.27 billion of Satellites/Weather Systems Personal Property; \$4.70 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems; \$1.53 billion of Structures, Facilities, and Leasehold Improvements; and \$1.98 billion of other General PP&E.
- **\$398.8 million of Direct Loans and Loan Guarantees, Net of Allowances for Subsidy Cost (Present Value) and Loan Losses**, primarily relating to the National Oceanic and Atmospheric Administration (NOAA) direct loan programs.
- **\$7.57 billion of Investments, Net** consist of non-marketable, market-based Treasury notes invested by the National Telecommunications and Information Administration's (NTIA) Public Safety Trust Fund of \$6.04 billion, and non-marketable, market-based Treasury bills of \$1.53 billion also invested by NTIA's Public Safety Trust Fund, resulting primarily from transfers in of auction proceeds from the Federal Communications Commission (FCC) during FY 2019 and FY 2018, and also resulting from interest earned on investments that is reinvested. Section 6413 of the Middle Class Tax Relief and Job Creation Act of 2012 specifies that amounts in the Public Safety Trust Fund be invested in accordance with 31 U.S.C. Section 9702.

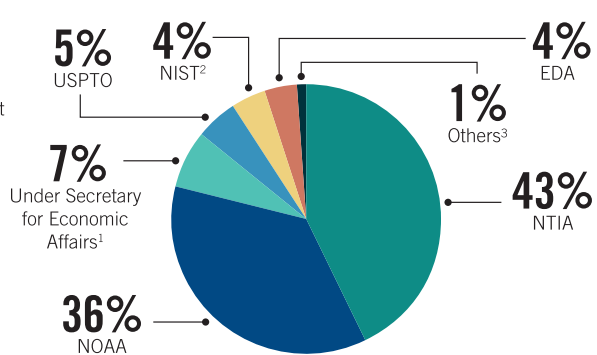


- **\$3.41 billion of Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net** (NPSBN) captures NTIA's cumulative cost contributions, net of accumulated amortization, toward the buildout of the NPSBN under the First Responder Network Authority's contract with AT&T to build, operate, and maintain the NPSBN.
- **\$394.7 million of Other Assets** primarily includes Accounts Receivable, Net of Allowance for Uncollectible Accounts, of \$144.4 million; Inventory, Materials, and Supplies, Net of Allowance for Excess, Obsolete, and Unserviceable Items of \$130.0 million; and Advances and Prepayments of \$104.6 million.

**COMPOSITION OF THE DEPARTMENT'S ASSETS  
AS OF SEPTEMBER 30, 2019**



**ASSETS BY RESPONSIBILITY SEGMENT  
AS OF SEPTEMBER 30, 2019**



<sup>1</sup> The bureaus that fall under the Under Secretary for Economic Affairs are the Bureau of Economic Analysis (BEA) and the Census Bureau.

<sup>2</sup> NIST includes NIST and the National Technical Information Service (NTIS).

<sup>3</sup> Others includes Departmental Management (DM), the Bureau of Industry and Security (BIS), the International Trade Administration (ITA), and the Minority Business Development Agency (MBDA).

## TRENDS IN ASSETS

Departmental assets increased \$4.03 billion, or 7 percent, from \$54.18 billion as of September 30, 2018 to \$58.21 billion as of September 30, 2019.

- **Fund Balance with Treasury** increased \$1.16 billion, or 4 percent, from \$28.79 to \$29.96 billion, primarily due to additional appropriations received by the Economic Development Administration (EDA) (\$600.0 million) and NOAA (\$295.6 million) in FY 2019 from the Additional Supplemental Appropriations for Disaster Relief Act, 2019 (Public Law 116-20), for which EDA did not make any disbursements from these funds in FY 2019, and for which NOAA disbursed \$72.2 million from these funds in FY 2019.
- **Investments, Net** increased \$1.32 billion, or 21 percent, from \$6.24 billion to \$7.57 billion, largely as a result of NTIA's additional auction proceeds from FCC received in FY 2019 of \$1.16 billion, and the reinvestment of interest earned on investments.
- **Cost Contribution to Buildout of NPSBN, Net** significantly increased \$1.40 billion, or 70 percent, from \$2.01 billion to \$3.41 billion, due to additional actual/estimated work completed in FY 2019 by AT&T for its buildout of the NPSBN.

**TRENDS IN TOTAL ASSETS AS OF SEPTEMBER 30** (In Billions)



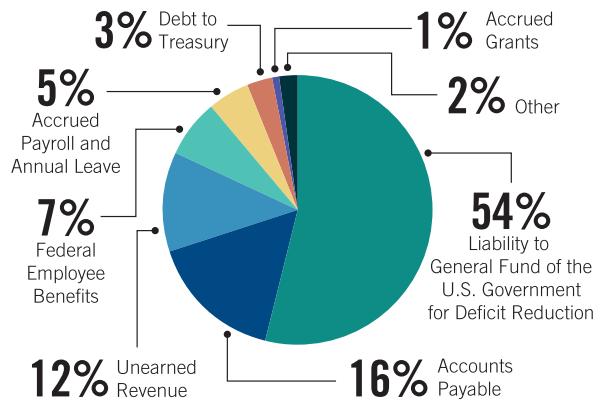
## COMPOSITION OF LIABILITIES AND LIABILITIES BY RESPONSIBILITY SEGMENT

The composition and distribution by responsibility segment (by percentage) of the Department's liabilities was consistent from September 30, 2018 to September 30, 2019.

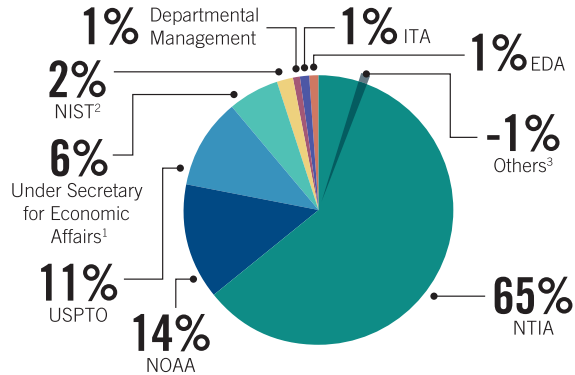
Liabilities of the Department amounted to \$14.02 billion as of September 30, 2019.

- **\$1.68 billion of Unearned Revenue** primarily includes the portion of monies received under customer orders or similar revenue-generating activities for which goods and services have not yet been provided or rendered by the Department. The Department's Unearned Revenue largely includes \$985.0 million of the U.S. Patent and Trademark Office's (USPTO) unearned revenue for patent and trademark application and user fees that are pending action by USPTO, and also includes \$239.6 million of the Census Bureau's unearned portions of monies received for customer orders. The Department's Unearned Revenue also includes the balances of customer deposit accounts held by the Department for which orders have not yet been received, and liabilities for collections held in clearing accounts.
- **\$927.7 million of Federal Employee Benefits Liability** is comprised of the actuarial present value of projected benefits for the NOAA Corps Retirement System and NOAA Corps Blended Retirement System of \$719.9 million and for the NOAA Corps Post-retirement Health Benefits of \$39.8 million, and the Department's Actuarial Federal Employees' Compensation Act (FECA) Liability of \$168.0 million, which represents the actuarial liability for future workers' compensation benefits.
- **\$2.32 billion of Accounts Payable** consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due.
- **\$685.3 million of Accrued Payroll and Annual Leave** includes salaries and wages earned by employees, but not disbursed, as of September 30, 2019.
- **\$395.4 million of Debt to Treasury** represents borrowings for NOAA's direct loan programs.
- **\$7.57 billion of NTIA Public Safety Trust Fund's Liability to General Fund of the U.S. Government for Deficit Reduction**—Priority 8 of Section 6413 of the Middle Class Tax Relief and Job Creation Act of 2012 specifies that any remaining funds deposited in NTIA's Public Safety Trust Fund be deposited in the General Fund of the U.S. Government for deficit reduction after the end of FY 2022.
- **\$140.2 million of Accrued Grants** relates to a diverse array of financial assistance programs and projects, including EDA's accrued grants of \$49.4 million for its grant investments that help communities generate jobs, retain existing jobs, and stimulate industrial and commercial growth; NOAA's accrued grants of \$52.0 million for grants awarded to state and local governments, non-profit research institutions, and colleges and universities for research and conservation initiatives; and the National Institute of Standards and Technology's (NIST) accrued grants of \$31.5 million for its grant investments and cooperative agreements that fund programs in a variety of fields such as energy, food safety, electronics research, strategic manufacturing technology, and the Hollings Manufacturing Extension Partnership.
- **\$299.3 million of Other Liabilities** primarily includes Environmental and Disposal Liabilities of \$146.3 million, including \$71.4 million for asbestos-related cleanup costs, and \$63.1 million for a nuclear reactor operated by NIST; Accrued Benefits of \$63.1 million that are payable to other federal entities; Accrued FECA Liability of \$24.9 million; and the International Trade Administration's (ITA) Foreign Service Nationals' Voluntary Separation Pay Liability of \$12.6 million.

### COMPOSITION OF THE DEPARTMENT'S LIABILITIES AS OF SEPTEMBER 30, 2019



### LIABILITIES BY RESPONSIBILITY SEGMENT AS OF SEPTEMBER 30, 2019



<sup>1</sup> The bureaus that fall under the Under Secretary for Economic Affairs are BEA and the Census Bureau.

<sup>2</sup> NIST includes NIST and NTIS.

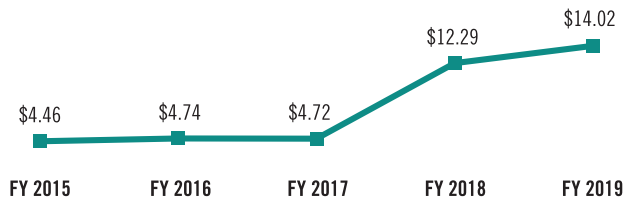
<sup>3</sup> Others includes BIS and MBDA.

## TRENDS IN LIABILITIES

Liabilities of the Department increased \$1.73 billion, or 14 percent, from \$12.29 billion as of September 30, 2018 to \$14.02 billion as of September 30, 2019.

- Accounts Payable** increased \$271.9 million, or 13 percent, from \$2.05 billion as of September 30, 2018 to \$2.32 billion as of September 30, 2019. This increase is primarily related to an increase in Accounts Payable for the Census Bureau's Periodic Censuses and Programs fund group of \$180.5 million, from \$101.4 million to \$281.9 million, largely due to increased costs in preparation for the 2020 Decennial Census, and is also due to an increase in NOAA's Accounts Payable of \$72.9 million, from \$314.7 million to \$387.7 million, mainly caused by an increase in NOAA's accrued liabilities with the public for unbilled goods received and services rendered of \$48.7 million, and also due to an increase in payables/accruals for satellite projects of \$29.9 million.
- Accrued Payroll and Annual Leave** increased \$88.4 million, or 15 percent, from \$596.9 million as of September 30, 2018 to \$685.3 million as of September 30, 2019, largely resulting from increased staffing at the Census Bureau in preparation for the 2020 Decennial Census. In addition, Department-wide salary increases and an additional day accrued in FY 2019 as compared to FY 2018 resulted in a comparatively higher accrual.
- Debt to Treasury** for NOAA's direct loan programs decreased \$57.2 million, or 13 percent, from \$452.6 million as of September 30, 2018 to \$395.4 million as of September 30, 2019, due to debt repayments made by NOAA to Treasury during FY 2019, while at the same time there were significantly decreased borrowings in FY 2019 due to a large decrease in disbursements for new loans. NOAA expects disbursements for new loans to increase to more normal levels in FY 2020.

### TRENDS IN TOTAL LIABILITIES AS OF SEPTEMBER 30 *(In Billions)*



- **NTIA Public Safety Trust Fund's Liability to the General Fund of the U.S Government for Debt Reduction** increased \$1.32 billion, or 21 percent, from \$6.24 billion as of September 30, 2018 to \$7.57 billion as of September 30, 2019, primarily as a result of the transfer of \$1.16 billion from FCC auction proceeds received in FY 2019 as well as the reinvestment of interest earned on investments. These funds are not available to the Department and must be paid to the U.S. government for deficit reduction pursuant to the Middle Class Tax Relief and Job Creation Act of 2012.

## COMPOSITION OF AND TRENDS IN NET POSITION

Net Position is the residual difference between assets and liabilities, and is composed of Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations represent the total amount of unexpended budget authority that is classified as appropriations, both obligated and unobligated. Unexpended Appropriations is increased for Appropriations Received, is reduced for Appropriations Used, and is adjusted for other changes in appropriations, such as transfers and rescissions. Cumulative Results of Operations is the net result of the Department's operations since inception.

**Total Net Position** increased \$2.30 billion, or 5 percent, from \$41.89 billion as of September 30, 2018 to \$44.19 billion as of September 30, 2019.

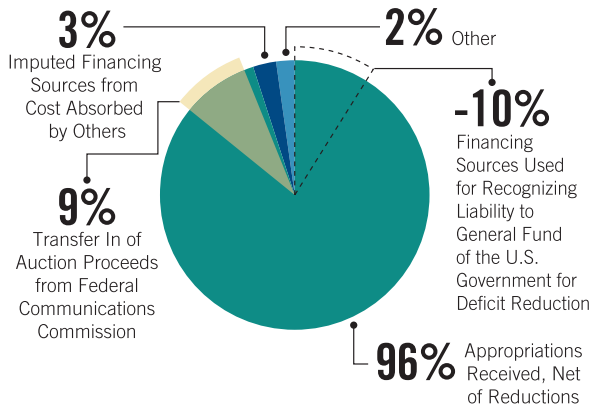
**Unexpended Appropriations** increased \$2.22 billion, or 24 percent, from \$9.09 billion as of September 30, 2018 to \$11.31 billion as of September 30, 2019, primarily caused by an increase in Unexpended Appropriations for the Census Bureau's Periodic Censuses and Programs fund group of \$1.05 billion, from \$1.38 billion to \$2.43 billion, primarily for the 2020 Decennial Census, and also due to an increase in Unexpended Appropriations for EDA's Economic Development Assistance Program fund group of \$629.3 million, from \$1.34 billion to \$1.97 billion, largely resulting from the additional disaster-related Appropriations Received in FY 2019 of \$600.0 million that were unexpended as of September 30, 2019 as previously discussed (see trend explanation for Fund Balance with Treasury).

## COMPOSITION OF AND TRENDS IN FINANCING SOURCES

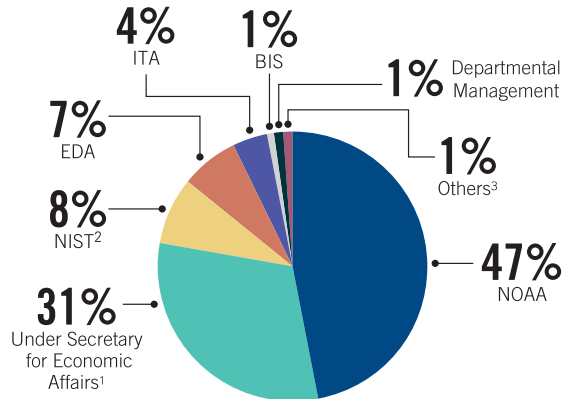
The composition (by percentage) of the Department's financing sources, as reported in the Department's *Consolidated Statements of Changes in Net Position*, remained consistent in that Appropriations Received, Net of Reductions continued in FY 2019 to comprise 96 percent of the Department's total financing sources.

The distribution by responsibility segment (by percentage) of the Department's total financing sources changed somewhat from FY 2018 to FY 2019. For the bureaus (the Bureau of Economic Analysis (BEA) and the Census Bureau) that fall under the Under Secretary for Economic Affairs, total financing sources increased from 24 percent of total Departmental financing sources for FY 2018 to 31 percent for FY 2019, and NOAA's total financing sources decreased from 52 percent of total Departmental financing source for FY 2018 to 47 percent for FY 2019. The above changes primarily resulted because (a) Appropriations Received for the Census Bureau's Periodic Censuses and Programs fund group increased \$1.01 billion, from \$2.54 billion in FY 2018 to \$3.55 billion in FY 2019, mainly for the 2020 Decennial Census; and (b) Appropriations Received decreased \$589.6 million for NOAA's Procurement, Acquisition, and Construction fund group, from \$2.37 billion in FY 2018 to \$1.78 billion in FY 2019.

### COMPOSITION OF THE DEPARTMENT'S FY 2019 FINANCING SOURCES



### FY 2019 FINANCING SOURCES BY RESPONSIBILITY SEGMENT



<sup>1</sup> The bureaus that fall under the Under Secretary for Economic Affairs are BEA and the Census Bureau.

<sup>2</sup> NIST includes NIST and NTIS.

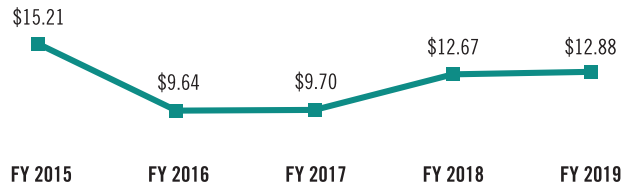
<sup>3</sup> Others includes MBDA, NTIA, and USPTO.

Total financing sources of the Department remained consistent, increasing \$209.0 million, or 2 percent, from \$12.67 billion in FY 2018 to \$12.88 billion in FY 2019.

Significant line item increases or decreases in Departmental financing sources from FY 2018 to FY 2019 include:

- Imputed Financing Sources from Cost Absorbed by Others** increased \$45.8 million, or 15 percent, from \$300.3 million in FY 2018 to \$346.2 million in FY 2019, primarily due to:
  - Increases in the imputed cost factors provided by the U.S. Office of Personnel Management, from FY 2018 to FY 2019, for the Civil Service Retirement System, Federal Employees Retirement System, and Federal Employees Health Benefits Program; and
  - The effect on the imputed cost calculations of higher dollar levels of basic pay in FY 2019 versus FY 2018.
- Transfer In of Auction Proceeds from FCC** significantly decreased \$4.74 billion, or 80 percent, from \$5.90 billion in FY 2018 to \$1.16 billion in FY 2019. The transfers in from FCC to NTIA's Public Safety Trust Fund represent auction proceeds that depend on applicable FCC auction activity and results.
- Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction** decreased \$4.58 billion, or 78 percent, from \$(5.91) billion in FY 2018 to \$(1.32) billion in FY 2019, primarily as a result of the large reduction in auction proceeds transferred in from FCC to NTIA's Public Safety Trust Fund as previously discussed.
- Other Financing Sources** increased \$144.6 million, or 76 percent, from \$191.0 million in FY 2018 to \$335.6 million in FY 2019, mainly due to a significant increase in non-exchange revenue for NTIA's Public Safety Trust Fund of \$156.7 million, from \$13.1 million to \$169.7 million, which represents an increase in interest earned (reinvested) from Treasury on investments.

### TRENDS IN TOTAL FINANCING SOURCES (In Billions)

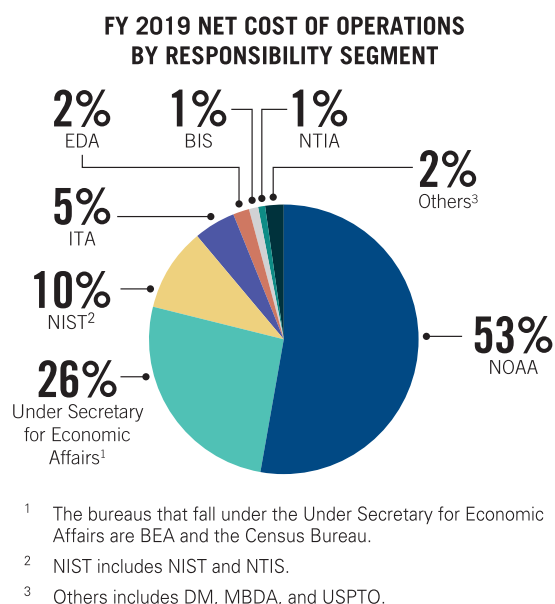




## COMPOSITION OF FY 2019 NET COST OF OPERATIONS AND NET COST OF OPERATIONS BY RESPONSIBILITY SEGMENT

In FY 2019, the Department's Net Cost of Operations amounted to \$10.58 billion, which consists of Gross Costs of \$14.96 billion less Earned Revenue of \$4.38 billion.

The distribution (by percentage) of the Department's Net Cost of Operations by responsibility segment changed somewhat from FY 2018 to FY 2019. For the bureaus (BEA and the Census Bureau) that fall under the Under Secretary for Economic Affairs, Net Cost of Operations increased from 17 percent of total Departmental Net Cost of Operations for FY 2018 to 26 percent for FY 2019, and NOAA's Net Cost of Operations decreased from 59 percent of total Departmental Net Cost of Operations for FY 2018 to 53 percent for FY 2019. The reasons for these changes are discussed in the *Trends in Net Cost of Operations* section.



**Note: The Gross Costs and Earned Revenue amounts presented in the following paragraphs include transactions with other Departmental entities (intra-Departmental transactions), in order to communicate the full scope of each organization's Gross Costs and Earned Revenue amounts. As a result, the Gross Costs amounts discussed below may not agree with the Gross Costs presented on the Department's FY 2019 Consolidated Statement of Net Cost, which excludes intra-Departmental transactions.**

- **NOAA's FY 2019 Net Cost of Operations** was \$5.62 billion (Gross Costs of \$5.90 billion less Earned Revenue of \$274.7 million). NOAA's mission relates to science, service, and stewardship—to understand and predict changes in climate, weather, oceans, and coasts; to share that knowledge and information with others; and to conserve and manage coastal and marine ecosystems and resources. NOAA's Gross Costs include costs related to improving weather, water quality, and climate reporting and forecasting; and enabling informed decision-making through an expanded understanding of the U.S. economy, society, and environment by providing data, standards, and services. By setting the broad Administration goals of promoting national security, public safety, economic growth, and job creation, NOAA provides the observational infrastructure, capabilities, and staff to produce timely and accurate weather forecasts and warnings; recapitalizes the NOAA fleet to ensure the continued collection of at-sea data vital to the US economy for fisheries management and nautical charting; supports the government's legal obligations to manage and conserve marine resources; and fosters safe and efficient ocean and coastal navigation.

■ <https://www.noaa.gov/organization/budget-finance-performance>

- **USPTO's FY 2019 Net Cost of Operations** of \$89.5 million (Gross Costs of \$3.48 billion less Earned Revenue of \$3.39 billion) relates to its patents and trademark programs. USPTO is the federal agency for granting U.S. patents and registering trademarks. The strength and vitality of the U.S. economy depends directly on effective mechanisms that protect new ideas and investments in innovation and creativity. USPTO advises the President, the Secretary of Commerce, and federal agencies on intellectual property (IP) policy, protection, and enforcement; and promotes the stronger and more effective IP protection around the world. USPTO furthers effective IP protection for the Nation's innovators and entrepreneurs worldwide by working with other federal agencies to secure strong IP provisions in free trade and other international agreements. It also provides training, education, and capacity-building programs designed to foster respect for IP and encourage the development of strong IP enforcement regimes by the Nation's trading partners.

■ <https://www.uspto.gov/about-us>

- The **Under Secretary for Economic Affairs FY 2019 Net Cost of Operations** was \$2.71 billion (Gross Costs of \$3.03 billion less Earned Revenue of \$324.7 million). The Under Secretary for Economic Affairs provides leadership and policy guidance to the Department's economic and statistical community, including oversight to BEA and the Census Bureau.

**BEA** promotes a better understanding of the Nation's economy by providing timely, relevant, and accurate economic accounts data in an objective and cost-effective manner.

■ <https://www.bea.gov/about/who-we-are>

The **Census Bureau's FY 2019 Net Cost of Operations** (included in the Undersecretary for Economic Affairs results above) was \$2.59 billion (Gross Costs of \$2.92 billion less Earned Revenue of \$322.3 million). The Census Bureau serves as the leading source of quality data about the Nation's people and economy. Data that the Census Bureau collects includes the Population and Housing Census (every 10 years), Economic Census (every 5 years), Census of Governments (every 5 years), American Community Survey (annually), economic indicators, and demographic and economic surveys provided to survey sponsors.

■ [https://www.census.gov/about/what.html#par\\_textimage](https://www.census.gov/about/what.html#par_textimage)

- **NIST's FY 2019 Net Cost of Operations** was \$1.02 billion (Gross Costs of \$1.25 billion less Earned Revenue of \$229.9 million), which includes NIST and the National Technical Information Service (NTIS), as NIST provides oversight for NTIS. NIST's FY 2019 Net Cost of Operations, by itself, was \$1.02 billion (Gross Costs of \$1.17 billion less Earned Revenue of \$148.9 million). NIST promotes American innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve the Nation's quality of life. NIST's Gross Costs include costs for Scientific and Technical Research and Services, Industrial Technology Services, and Construction of Research Facilities. The NIST Laboratories conducts world-class research, often in close collaboration with industry, which advances the Nation's technology infrastructure and helps American companies continually improve products and services.

**NTIS** serves as the largest central resource for government-funded scientific, technical, engineering, and business-related information by housing more than three million publications. NTIS's new mission is to provide innovative data services to federal agencies through joint venture partnerships with the private sector, advance federal data priorities, promote economic growth, and enable operational excellence.

■ <https://www.nist.gov/about-nist/our-organization/mission-vision-values>

■ <https://www.ntis.gov/about/about-us.html>



- **ITA's FY 2019 Net Cost of Operations** was \$510.5 million (Gross Costs of \$532.9 million less Earned Revenue of \$22.4 million). ITA fosters economic growth and prosperity through global trade by strengthening the competitiveness of American industry, promoting trade and investment, and ensuring fair trade through the rigorous enforcement of the Nation's trade laws and agreements. ITA leads the Department's export and investment platform, working with several other bureaus, and inside and outside the Department, including working with the U.S. Trade Representative, to provide greater access to markets and customers by removing trade barriers.

■ <https://www.trade.gov/about.asp>

- **EDA's FY 2019 Net Cost of Operations** was \$260.2 million (Gross Costs of \$265.6 million less Earned Revenue of \$5.4 million). EDA leads the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. EDA plays a critical role in fostering regional economic development efforts in communities across the United States. Through strategic investments that foster job creation and attract private investment, EDA supports development in economically distressed areas of the United States. EDA works directly with local economic development officials to make grant investments that are well-defined, timely, and linked to a long-term, sustainable economic development strategy.

■ <https://www.eda.gov/about/>

- **NTIA's FY 2019 Net Cost of Operations** was \$94.8 million (Gross Costs of \$260.4 million less Earned Revenue of \$165.5 million). NTIA is the federal agency that is principally responsible for advising the President on telecommunications and information policy issues. NTIA's programs and policymaking focus largely on expanding broadband Internet access and adoption in America, expanding the use of spectrum by all users, and ensuring that the Internet remains an engine for continued innovation and economic growth. NTIA's activities include managing the federal use of spectrum and identifying additional spectrum for commercial use and administering grant programs that further the deployment and use of broadband and other technologies in America.

NTIA includes the First Responder Network Authority, an independent authority, which was created by the Middle Class Tax Relief and Job Creation Act of 2012 to provide emergency responders with the first high-speed, nationwide network dedicated to public safety.

■ <https://www.ntia.doc.gov/>

■ <https://firstnet.gov>

- **Departmental Management's (DM) FY 2019 Net Cost of Operations** was \$118.1 million (Gross Costs of \$438.7 million less Earned Revenue of \$320.6 million), which includes Gifts and Bequests, Herbert C. Hoover Building Renovation Project, Office of Inspector General, Salaries and Expenses, and Working Capital Fund. DM's objective is to develop and provide policies and procedures for administrative planning, oversight, coordination, direction, and guidance to ensure implementation of the Department's mission.

■ <http://www.osec.doc.gov/bmi/budget/FY19BIB/FinalBiBFY2019.pdf>

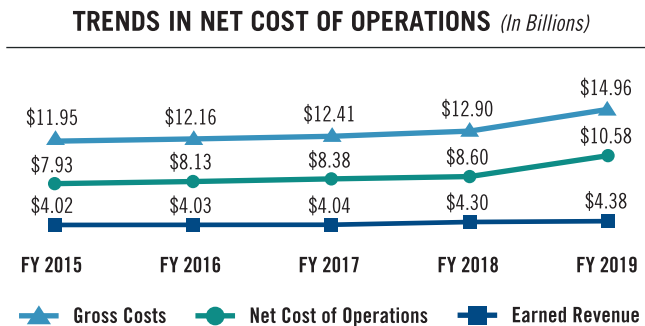
- **Other Departmental Bureaus' FY 2019 Net Cost of Operations** was \$154.5 million (Gross Costs of \$157.1 million less Earned Revenue of \$2.5 million), which is comprised of the Bureau of Industry and Security (BIS) and the Minority Business Development Agency (MBDA). **BIS** advances the Nation's national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued strategic technology leadership by the United States. **MBDA** helps to create and sustain American jobs by promoting the growth and global competitiveness of businesses owned and operated by minority entrepreneurs.

■ <https://www.bis.doc.gov/index.php/about-bis>

■ <https://www.mbda.gov/about/whatwedo>

## TRENDS IN NET COST OF OPERATIONS

The Department's Net Cost of Operations increased \$1.98 billion, or 23 percent, from \$8.60 billion in FY 2018 to \$10.58 billion in FY 2019. Gross Costs increased \$2.06 billion, or 16 percent, from \$12.90 billion in FY 2018 to \$14.96 billion in FY 2019. Earned Revenue increased \$86.0 million, or 2 percent, from \$4.30 billion in FY 2018 to \$4.38 billion in FY 2019. The increase in Gross Costs is primarily attributable to activity related to the Census Bureau and NOAA.

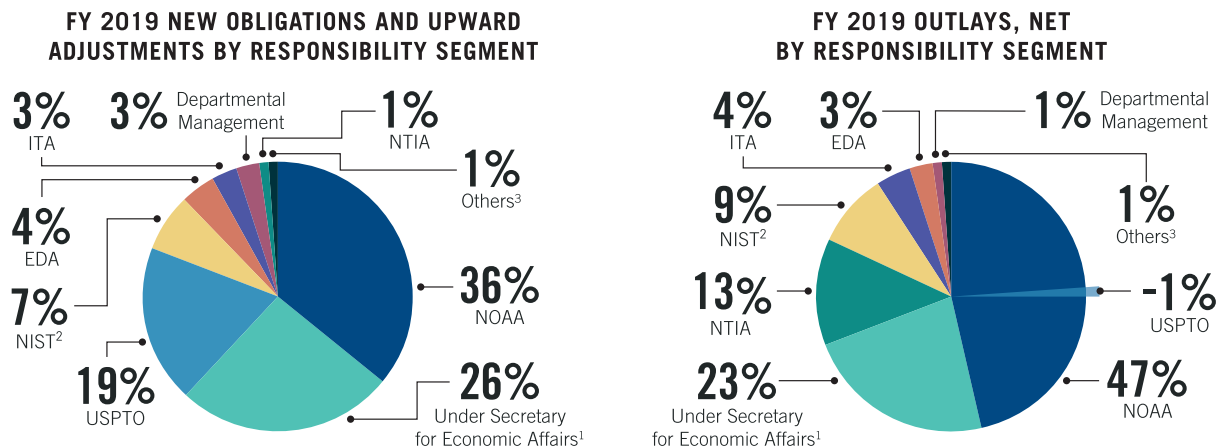


- Gross Costs for the Census Bureau's Periodic Census and Programs fund group increased \$1.09 billion, or 76 percent, from \$1.44 billion in FY 2018 to \$2.53 billion in FY 2019, primarily due to increased expenses incurred in preparation for the 2020 Decennial Census. The expenses included contract services as well as the hiring of additional staff.
- NOAA's Gross Costs increased \$592.1 million, or 11 percent, from \$5.31 billion in FY 2018 to \$5.90 billion in FY 2019 primarily due to the following:
  - Depreciation increased \$240.8 million due to satellites placed in service in FY 2018;
  - An increase of \$97.2 million related to National Marine Fisheries Service programs;
  - Pension costs for the NOAA Corps Retirement System and NOAA Corps Blended Retirement System increased \$55.7 million, from \$36.5 million in FY 2018 to \$92.2 million in FY 2019, primarily due to an increase in annual inflation costs of \$58.5 million, resulting from an increase in the long-term assumption for annual inflation from 1.35 percent for the actuarial valuation as of September 30, 2018 to 1.70 percent for the actuarial valuation as of September 30, 2019;
  - An increase of \$45.3 million related to National Environmental Satellite Data and Information Service's Satellite and Product Operations program;
  - An increase of \$41.2 million related to National Weather Service's Forecast Analyze and Support program;
  - An increase of \$22.5 million related to Office of Marine and Aviation Operations' marine operation and maintenance service program;
  - An increase of \$15.6 million related to NOAA observations, positioning, mapping, and charting program; and
  - An increase of \$10.3 million related to Office of Oceanic and Atmospheric Research weather and air quality research program.
- USPTO's Gross Costs increased \$156.7 million, or 5 percent, from \$3.32 billion in FY 2018 to \$3.48 billion in FY 2019, primarily due to increased salary and benefit costs along with increased contract costs associated with information technology expenses.

## SELECTED BUDGETARY INFORMATION BY RESPONSIBILITY SEGMENT

The distribution by responsibility segment (by percentage) of the Department's New Obligations and Upward Adjustments changed significantly from FY 2018 to FY 2019. Due to the substantial changes in New Obligations and Upward Adjustments discussed in the following *Trends in Selected Budgetary Information* section, NTIA's portion of the Departmental total decreased from 29 percent in FY 2018 to only 1 percent in FY 2019, and the bureaus (BEA and the Census Bureau) that fall under the Under Secretary for Economic Affairs portion of the Departmental total increased from 13 percent in FY 2018 to 26 percent in FY 2019. Mainly as a result of the above noted changes by responsibility segments, NOAA's portion of the Departmental New Obligations and Upward Adjustments increased from 30 percent in FY 2018 to 36 percent in FY 2019.

The distribution by responsibility segment (by percentage) of the Department's Outlays, Net (which is comprised of Outlays, Gross less Actual Offsetting Collections) also changed significantly from FY 2018 to FY 2019. Due to the substantial changes in Outlays, Net discussed in the following *Trends in Selected Budgetary Information* section, NTIA's portion increased from negative 5 percent of the Departmental total in FY 2018 to 13 percent of the Departmental total in FY 2019. Primarily because of above noted increase in NTIA's portion, and also due to a decrease in NOAA's Outlays, Net of \$144.6 million, or 3 percent (from \$5.42 billion in FY 2018 to \$5.27 billion in FY 2019), NOAA's portion of the Departmental total of Outlays, Net decreased from 63 percent in FY 2018 to 47 percent in FY 2019.



<sup>1</sup> The bureaus that fall under the Under Secretary for Economic Affairs are BEA and the Census Bureau.

<sup>2</sup> NIST includes NIST and NTIS.

<sup>3</sup> Others includes BIS and MBDA.

## TRENDS IN SELECTED BUDGETARY INFORMATION

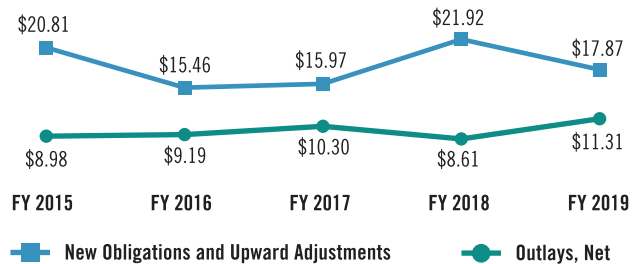
The Department's New Obligations and Upward Adjustments decreased \$4.05 billion, or 19 percent, from \$21.92 billion in FY 2018 to \$17.87 billion in FY 2019, primarily due to:

- In FY 2018, there were large buildout obligations of \$6.17 billion under NTIA's First Responder Network Authority contract with AT&T to build, maintain, and operate the NPSBN. There were no similar, large buildout obligations in FY 2019 under this contract; and
- The above NTIA decrease was partially offset by an increase in New Obligations and Upward Adjustments from FY 2018 to FY 2019 for the Census Bureau's Periodic Censuses and Programs fund group of \$1.91 billion, from \$1.52 billion in FY 2018 to \$3.44 billion in FY 2019, primarily due to increased obligations in preparation for the 2020 Decennial Census.

The Department's Outlays, Net increased \$2.69 billion, or 31 percent, from \$8.61 billion in FY 2018 to \$11.31 billion in FY 2019, primarily due to:

- An increase in NTIA Network Construction Fund payments (Outlays, Gross) to AT&T under NTIA's First Responder Network Authority contract with AT&T to build, operate, and maintain the NPSBN of \$1.13 billion, from \$336.0 million in FY 2018 to \$1.47 billion in FY 2019, as AT&T tasks to buildout the NPSBN under the contract continued to be delivered and completed during FY 2019.
- An increase in payments (Outlays, Gross) for the Census Bureau's Periodic Censuses and Programs fund group of \$831.0 million, from \$1.46 billion in FY 2018 to \$2.29 billion in FY 2019, primarily due to increased payments in preparation for the 2020 Decennial Census.
- In FY 2018, NTIA's Network Construction Fund received a refund (Actual Offsetting Collections) of \$672.0 million from the U.S. Department of the Interior (DOI) returning advance funding of certain task orders under the previous DOI contract with AT&T to build, operate, and maintain the NPSBN (the AT&T contract is now with NTIA's First Responder Network Authority). There was no such refund (Actual Offsetting Collections) in FY 2019, causing an increase in Outlays, Net from FY 2018 to FY 2019 related to the DOI FY 2018 refund of \$672.0 million.

**TRENDS IN SELECTED BUDGETARY INFORMATION** (In Billions)



# SUMMARY OF STEWARDSHIP INFORMATION

## STEWARDSHIP ASSETS

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The Department has certain resources entrusted to it and certain stewardship responsibilities it assumes. The physical properties of Stewardship Assets resemble those of the General Property, Plant, and Equipment that is capitalized traditionally in the financial statements of federal entities. Given the nature of these assets, federal standard-setting bodies have determined that valuation is unduly burdensome and matching costs with specific periods is not meaningful. Therefore, federal accounting standards require the disclosure of the nature and quantity of these assets. The National Oceanic and Atmospheric Administration (NOAA) is the primary bureau within the Department that maintains Stewardship Assets, while the National Institute of Standards and Technology (NIST) and the Census Bureau also maintains Stewardship Assets.

NOAA maintains the following Stewardship Assets: 14 National Marine Sanctuaries; five Marine National Monuments (Marianas Trench, the Northeast Canyons and Seamounts, Pacific Remote Islands, Papahānaumokuākea, and Rose Atoll); Aleutian Islands Habitat Conservation Area; and NOAA Habitat Blueprint (10 Habitat Focus Areas). In addition to the Stewardship Assets, NOAA also maintains the following Heritage and Collection-type Heritage Assets: National Marine Fisheries Service (NMFS) Galveston Laboratory, NMFS St. George Seal Skin Processing Plant; NMFS St. George Cottage; NMFS St. Paul Old Clinic/Hospital; NMFS Woods Hole Science Aquarium; Office of Oceanic and Atmospheric Research (OAR) Great Lakes Environmental Research Laboratory/Lake Michigan Field Station; OAR Air Resources Lab in Oak Ridge, TN; 10 National Environmental Satellite, Data, and Information Service buildings in Gilmore Creek, Fairbanks, AK; three Northwest Fisheries Science Center buildings in Seattle, WA; two Western Regional Center hangars (buildings) in Seattle, WA; five NMFS rookeries in St. Paul, AK; seven NMFS rookeries in St. George, AK; NOAA Central Library (mainly books, journals, publications, photographs, and motion pictures); Thunder Bay Sanctuary Research Collection (data cards, photograph negatives, document copies, photographs, books, and other items); National Centers for Environmental Information (books, manuals, slides, thermometers, gauges, radiosondes, and laboratory equipment); Florida Keys National Marine Sanctuary Collection (artifacts from shipwrecks and wrecking events occurring in the Florida Keys); and other artifacts, artwork, books, films, instruments, maps, and records.

NIST maintains Collection-type Heritage Assets under its Museum and History Program, which collects, preserves, and exhibits artifacts, such as scientific instruments, equipment, and objects of significance to NIST and predecessor agencies. The Census Bureau maintains Collection-type Heritage Assets that help illustrate the social, educational, and cultural heritage of the Census Bureau, including artifacts, artwork, books, films, instruments, records, publications, manuscripts, photographs, and maps.

## STEWARDSHIP INVESTMENTS

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Stewardship investments are substantial investments made by the federal government for the benefit of the Nation, but are not physical assets owned by the federal government. Though treated as expenses when incurred to determine the Department's Net Cost of Operations, these items merit special treatment, so that users of federal financial reports know the extent of investments that are made for the long-term benefit of the Nation.

**Investments in Non-federal Physical Property:** These investments are for the purchase, construction, or major renovation of physical property owned by state and local governments. The Economic Development Administration (EDA) and NOAA have significant investments in non-federal physical property. EDA's investments in FY 2019 totaled \$481.6 million and included Disaster Recovery (\$318.2 million), its Public Works program (\$123.4 million), Assistance to Coal Communities (\$25.6 million), and Economic Adjustment Assistance program (\$14.4 million). NOAA's investments in FY 2019 totaled \$1.2 million for the National Estuarine Research Reserves (\$1.1 million) and the Coastal and Estuarine Land Conservation Program (\$0.1 million). EDA's investments in non-federal physical property, other than Disaster Recovery, require matching funds by state and local governments of 20 to 50 percent. Disaster Recovery grants do not require matching funds and can be up to 100 percent of the investment costs.

**Investments in Human Capital:** These investments are for education and training programs that are intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of the constant or increasing national productive capacity. These investments exclude education and training expenses for federal civilian and military personnel. The most significant investments in human capital are by NOAA, whose investments in FY 2019 totaled \$24.4 million and included the Educational Partnership Program (\$16.0 million), Ernest F. Hollings Undergraduate Scholarship Program (\$5.4 million), National Estuarine Research Reserve Program (\$1.8 million), and the National Sea Grant College Program (\$1.2 million).

**Investments in Research and Development (R&D):** These investments include investments in basic research, applied research, and development, which are made with the expectation of maintaining or increasing national economic productive capacity, or yielding other future economic or societal benefits. The significant investments in R&D are by NIST and NOAA.

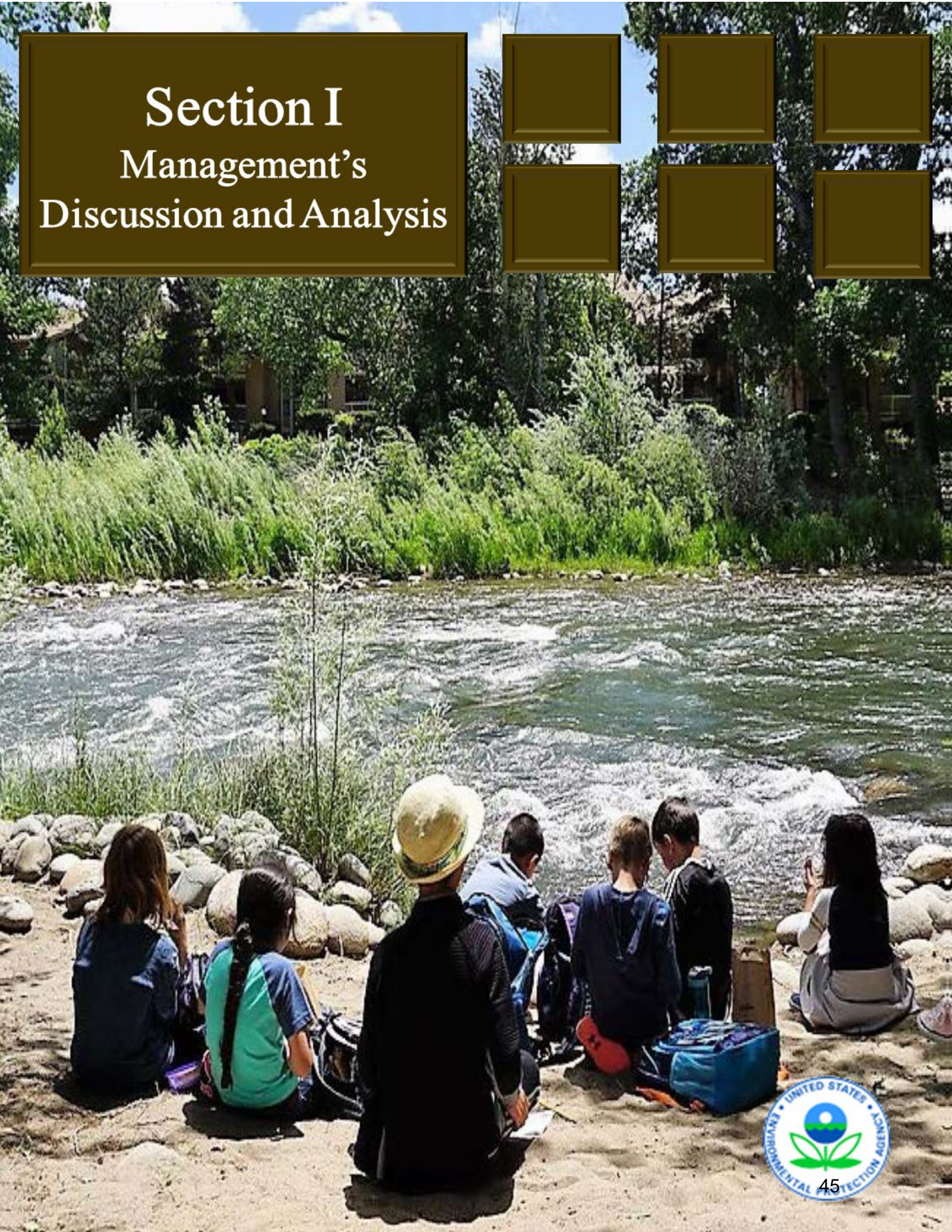
NIST's R&D investments (basic, applied, and development) in FY 2019 totaled \$813.4 million and included \$759.2 million for its NIST Laboratories Program, \$41.4 million for its Public Safety Communications Research Program, and \$12.8 million for its Manufacturing USA, Advanced Manufacturing Technology Consortia, and Technology Innovation Program. NOAA's R&D investments (applied and development) in FY 2019 totaled \$749.3 million which included Environmental and Climate (\$536.5 million), Fisheries (\$58.8 million), Weather Service (\$22.1 million), and Other (\$131.9 million).

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# Section I

## Management's Discussion and Analysis





# ABOUT EPA

## History and Purpose

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The American people deserve a clean, healthy, and safe environment where they live, work, and play. Established in 1970 as the negative impact and hazards of environmental pollution became increasingly evident, EPA has worked for over four decades to identify, evaluate, and execute sustainable solutions to existing and emerging environmental concerns.

EPA incorporates environmental research, monitoring, standard-setting, and enforcement functions under the guidance of a single agency. As a result, the Agency ensures environmental protection remains an integral part of all U.S. policies, whether related to economic growth, natural resource use, energy, transportation, agriculture, or human health.

Since its inception, EPA has made great strides in providing a cleaner, safer, and healthier environment for all Americans and future generations. Focused cleanup efforts have helped remedy the mistakes of the past, while EPA's work to monitor and regulate pollutants, evaluate new chemicals, and inspire better decision-making are helping to safeguard our environmental future.

EPA is committed to collaboration. Identifying and addressing the complex environmental issues affecting the nation and the world requires consistent, efficient cooperation and communication among a diverse group of partnerships, ranging from state, tribal, and local governments to foreign governments and international organizations throughout the world.

Everyone has a role to play in creating a healthy, sustainable environment. By serving as the primary federal source of rigorously researched, scientific information on the environment, EPA motivates individuals and organizations to better recognize and engage in environmental protection and develop lasting solutions domestically and internationally.



## Mission

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### What EPA Does

- ✓ *Enforce environmental laws*
- ✓ *Responds to the release of hazardous substances*
- ✓ *Gives grants to states, local communities, and tribes*
- ✓ *Studies environmental issues*
- ✓ *Sponsors partnerships*

The mission of EPA is to protect human health and the environment.

To accomplish this mission, EPA depends upon the most accurate scientific information to identify human health and environmental concerns that affect policy decisions and enforcement actions. EPA works to ensure all communities, individuals, businesses, and state, local and tribal governments have access to accurate information sufficient to effectively participate in delivering a cleaner, safer, and healthier environment. EPA will continue to effectively and efficiently serve the American people and conduct business with transparency in a manner worthy of the public's trust and confidence.

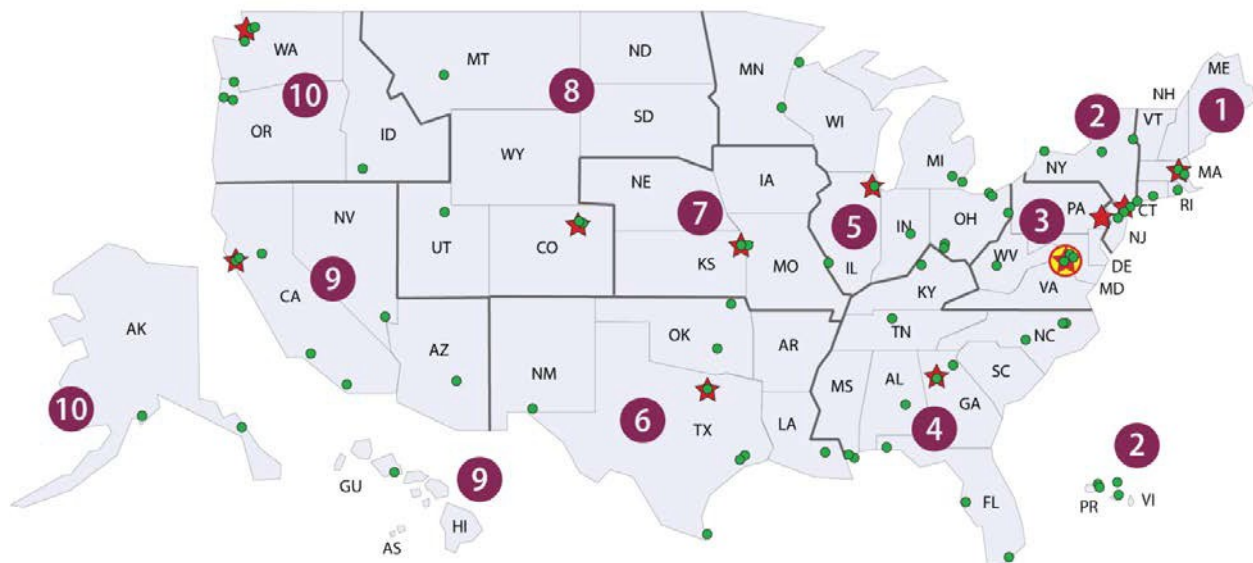
## Organization

EPA's headquarters is located in Washington, D.C. Together, EPA's headquarters offices, 10 regional offices, and more than a dozen laboratories and field offices across the country employ a diverse, highly educated, and technically trained workforce of roughly 14,000 people.



## Regional Map

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### EPA Offices and Facilities



EPA National Headquarters



EPA Regional Headquarters



EPA Regional and Program Laboratories and Facilities

## Collaborating with Partners and Stakeholders

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The idea that environmental protection is a shared responsibility between the states, tribes, and the federal government is embedded in our environmental laws, which in many cases provide states and tribes the opportunity and responsibility for implementing environmental protection programs. More than 45 years after the creation of EPA and the enactment of a broad set of federal environmental protection laws, most states, and to a lesser extent territories and tribes, are authorized to implement environmental programs within their jurisdictions. EPA understands that improvements to protecting human health and the environment cannot be achieved by any actor operating alone, but only when the states, tribes, and EPA, in conjunction with affected communities, work together in a spirit of trust, collaboration, and partnership. Effective environmental protection is best achieved when EPA and its state and tribal partners work from a foundation of transparency, early collaboration – including public participation – and a spirit of shared accountability for the outcomes of this joint work. This foundation involves active platforms for public participation, including building the capacity of the most vulnerable community stakeholders to provide input.

## FY 2019 PROGRAM PERFORMANCE

Detailed FY 2019 performance results will be presented in EPA's *FY 2019 Annual Performance Report (APR)*. EPA will include its *FY 2019 APR* with its *FY 2021 Annual Performance Plan and Budget*. These reports, along with FY 2019 performance results are posted at <http://www.epa.gov/planandbudget> concurrent with the publication of the *FY 2021 President's Budget*.

# FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

## **Sound Financial Management: Good for the Environment, Good for the Nation**

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The financial management overview below highlights some of EPA's most significant financial achievements carried out during the agency's efforts to execute its mission to protect human health and the environment during FY 2019:

- **Agency Financial Statements.** For the 20<sup>th</sup> consecutive year, EPA's OIG issued a "clean" audit opinion, unmodified, in the Agency's financial statements. This accomplishment underlines EPA's consistency in timely, reliable, and accurate financial information that is reported in all material aspects.
- **Anti-Deficiency Act.** In FY 2019, EPA reported two sets of Anti-Deficiency Act violations related to the voluntary services prohibition, which occurred at various points between 2011 and 2016. The agency began taking corrective actions in July 2017 and has fully corrected these violations.
- **Water Infrastructure Finance and Innovation Act.** Through ongoing collaboration with states, tribes, municipalities, and private entities, the EPA was able to issue 9 WIFIA loans nationwide to fund high-priority infrastructure investments, each of which ensure our mission of protecting human health and the environment.
- **EPA's Lean Management System.** EPA implemented an agencywide initiative of continuous improvement systems to assess and increase efficiency for various financial processes, including Superfund Billing, Internal Control Reviews, processing Freedom of Information Act requests, Conference Spending reporting, and the Governmentwide Treasury Account Symbol Submission process. These lean management approaches, which identify and solve problems as they occur, has resulted in more streamlined processes and increased transparency.
- **Improper Payments Elimination and Recovery Act Reporting.** EPA continues to maintain sustained low improper payment rates across its principal payment streams. The Office of the Inspector General's audit of EPA's FY 2018 improper payment reporting determined EPA was in full compliance with IPERA, which marks the sixth consecutive year of compliance for EPA. The agency anticipates achieving a seventh straight year of compliance for FY 2019 reporting.
- **e-Manifest.** During FY 2019, the EPA continued to reduce the burden of costs associated with hazardous waste manifests through the use of the agency's e-Manifest system, reducing the state burden for processing manifests by over \$15 million.
- **Superfund Interagency Agreements.** This fiscal year, the Office of the Inspector General's audit of Superfund Interagency Agreements (IA) identified over \$3 billion in EPA active agreements. The audit noted this success is due to the Agency maintaining an effective system for monitoring IA projects between other federal agencies for Superfund work.
- **G-Invoicing.** EPA has begun working with federal agencies to implement the Government Invoicing solution to transition all interagency buy/sell activities for over 1,400 open agreements. During this change in business process the agency will continue improving the quality of Intragovernmental Transactions, while also being able to maintain our core mission in the most effective and efficient manner.
- **E-Invoicing.** To maintain financial integrity and accountability the agency is implementing electronic invoicing through a web-based system, Invoice Processing Platform (IPP), that streamlines invoice processing into a centralized location. This system has the potential to save taxpayer dollars and

minimize improper payments.

- **Working Capital Fund Financial Statements.** The EPA's Working Capital Fund provides common administrative services to the EPA and other federal agencies, where the costs of goods and services provided are charged to users on a fee-for-service basis. In FY 2019, the WCF began its twenty-third year of operation. The WCF is not mandated to be audited by a third-party; however, the EPA's WCF has contracted with an external CPA firm to conduct an annual audit. For the 16<sup>th</sup> consecutive year, the EPA's WCF received a clean opinion, indicating its financial statements were presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.
- **Financial Management Challenges.** During the FY 2019, Financial Statements audit, the Office of Inspector General identified one new material weakness related to the agency's preparation of the financial statements. The agency will continue to review its processes for preparing financial statements and identify process improvements to strengthen the preparation process further.

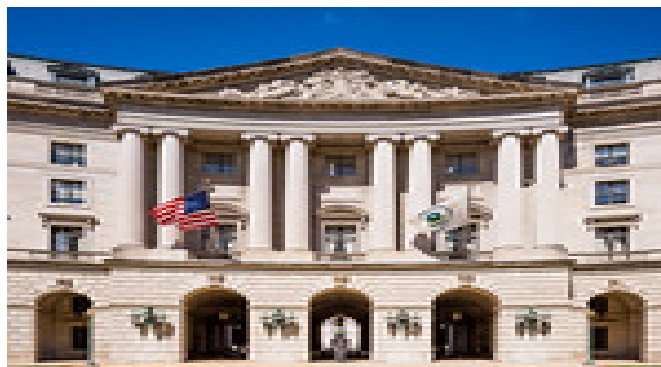


## Financial Condition and Results

Financial statements are formal financial records that document EPA's activities at the transaction level, where a "financial event" occurs. A financial event is any occurrence having financial consequences to the federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, and other potential liabilities; or other reportable financial activities.

EPA prepares four consolidated statements (a balance sheet, a statement of net cost, a statement of changes in net position, and a statement of custodial activity) and one combined statement, the Statement of Budgetary Resources. Together, these statements with their accompanying notes provide the complete picture of EPA's financial situation. The complete statements with accompanying notes, as well as the auditors' opinion, are available in Section II of this report.

The balance sheet displays assets, liabilities, and net position as of September 30, 2019, and September 30, 2018. The statement of net cost shows EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of EPA's financial condition—assets, liabilities, net position, and net cost of operations. The balance sheet trend chart depicts the agency's financial activity levels since FY 2017.



### Key Terms

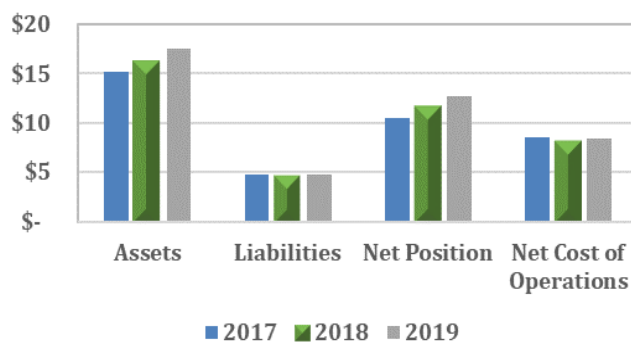
**Assets:** What EPA owns and manages.

**Liabilities:** Amounts EPA owes because of past transactions or events.

**Net position:** The difference between EPA's assets and liabilities.

**Net cost of operations:** The difference between the costs incurred by EPA's programs and EPA's revenues.

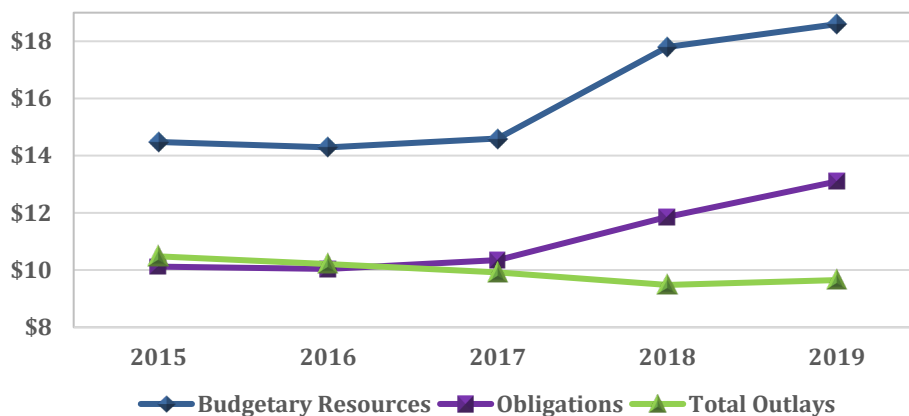
### Balance Sheet Trend (dollars in billions)



## EPA Resources and Spending

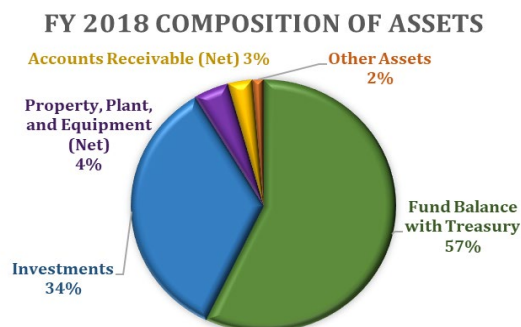
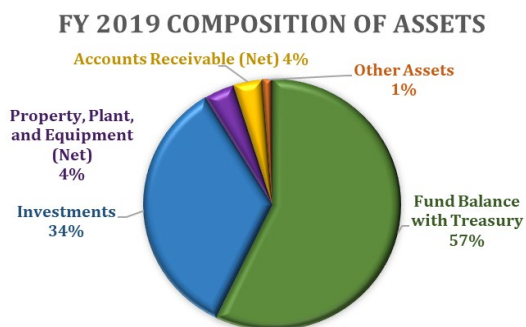
The figure below depicts EPA's aggregate budgetary resources (congressional appropriations and some agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last five fiscal years. The Statement of Budgetary Resources in Section II provides more information on the makeup of the agency's resources.

**EPA Financial Trends**  
(dollars in billions)



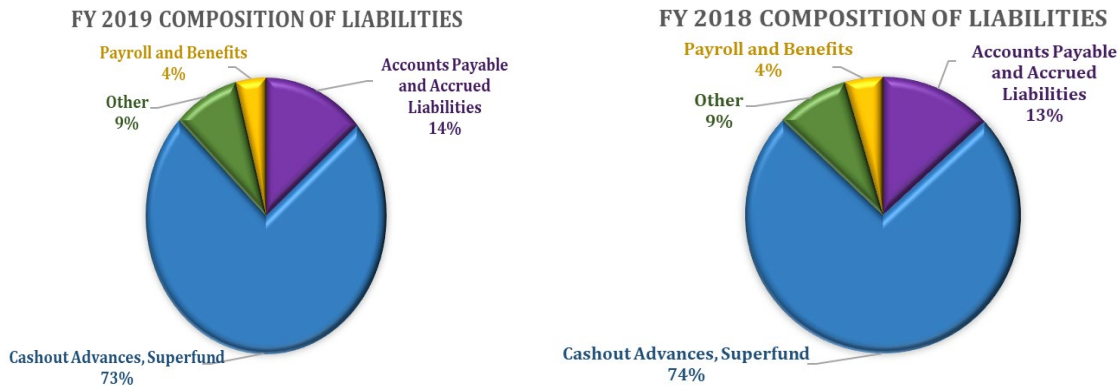
## Assets—What EPA Owns and Manages

EPA's assets totaled \$17.48 billion at the end of FY 2019, an increase of \$1.42 billion from the FY 2018 level. In FY 2019, approximately 91 percent of EPA's assets fall into two categories: fund balance with Treasury and investments. All of EPA's investments are backed by U.S. government securities. The graph below compares the agency's FY 2019 and FY 2018 assets by major categories.



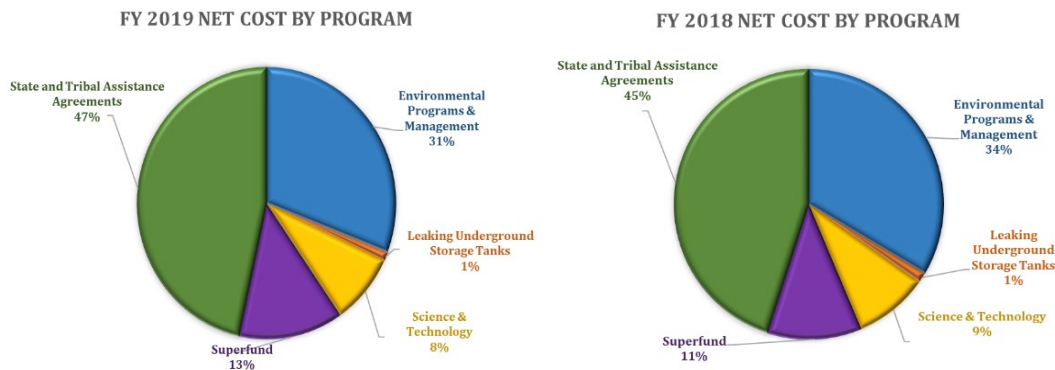
## Liabilities—What EPA Owes

EPA's liabilities were \$4.76 billion at the end of FY 2019, a decrease of \$238 million from the FY 2018 level. In FY 2019, EPA's largest liability (73 percent) was Superfund unearned revenue, which the agency uses to pay for cleanup of contaminated sites under the Superfund program. Additional categories include payroll and benefits payable, salaries, pensions and other actuarial liabilities, EPA's debt due to Treasury, custodial liabilities that are necessary to maintain assets for which EPA serves as custodian, environmental cleanup costs, and other miscellaneous liabilities. The graphs compare FY 2019 and FY 2018 liabilities by major categories.



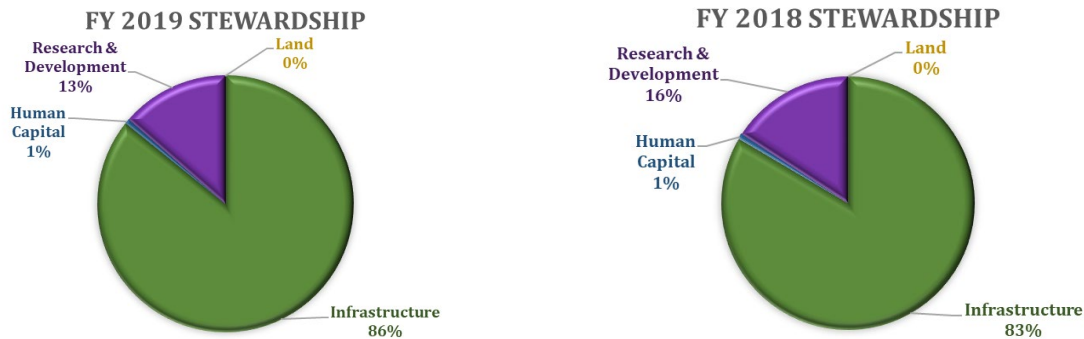
## Net Cost of Operations—How EPA Used Its Funds

The graph that follows show how EPA's funds are expended among five expenditure accounts in FY 2019 and FY 2018.



## Stewardship Funds

EPA serves as a steward on behalf of the American people. The chart below presents four categories of stewardship: land, research and development, infrastructure, and human capital. In FY 2019, EPA devoted a total of \$3.8 billion to its stewardship activities.



Per the Federal Accounting Standards Advisory Board (FASAB), stewardship investments consist of expenditures made by the Agency for the long-term benefit of the nation that do not result in the federal government acquiring tangible assets.

- The largest infrastructure programs are the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs that provide grant funds to states for water infrastructure projects, such as the construction of wastewater and drinking water treatment facilities. States lend the majority of these funds to localities or utilities to fund the construction and or upgrade of facilities (some may also be used for loan forgiveness or given as grants). Loan repayments then revolve at the State level to fund future water infrastructure projects. EPA's budget included nearly \$3.32 billion in FY 2019 appropriated funds for the SRFs for states' use. In addition, states lent billions of dollars from funds they received as repayments from previous State Revolving Fund (SRF) loans. These funds provide assistance to public drinking water and wastewater systems for the enhancement of water infrastructure, allowing for cleaner water bodies and crucial access to safer drinking water for millions of people.
- Research and development activities enable EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for EPA's regulatory work, including regulations to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.
- Land includes contaminated sites to which EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, EPA may acquire easements that are in good and usable condition. These easements may also serve to isolate the site and restrict usage while the cleanup is taking place.
- The agency's investment in human capital through training, public awareness, and research fellowships are components of many of the Agency's programs and are effective in achieving the agency's mission of protecting public health and the environment.

A detailed discussion of this information is available in Section III of this report, under the Required Supplementary Stewardship Information.

## Financial Management for the Future

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During times of environmental challenges, sound stewardship of the EPA's financial resources continues to be critical to the agency's ability to protect the environment and human health locally, nationally, and internationally. Reliable, accurate, and timely financial information is essential to ensure cost-effective decisions for addressing land, water, air and ecosystem issues. To strengthen the EPA's financial stewardship capabilities, the agency focuses on the fundamental elements of financial management: people and systems.

**People:** EPA leverages every available tool to recruit the best people with the necessary skills to meet tomorrow's financial challenges. Staff members are trained in financial analysis and forecasting to understand financial data and what it means. EPA is integrating financial information into everyday decision-making so that it maximizes the use of its resources.

**Systems:** EPA's core financial system, called Compass, is based on a commercial-off-the-shelf software solution that addresses the agency's most critical business needs. Compass has improved EPA's financial stewardship by strengthening accountability, data integrity, and internal controls, on the following business areas:

- General ledger
- Accounts payable
- Accounts receivable
- Property
- Project cost
- Intra-governmental transactions
- Budget execution

Compass provides core budget execution and accounting functions and facilitates more efficient transaction processing. The system posts updates to ledgers and tables as transactions are processed and generates source data for the preparation of financial statements and budgetary reports. Compass is integrated with 15 agency systems that support diverse functions, such as budget planning, execution, and tracking; recovery of Superfund site-specific cleanup costs; property inventory; agency travel; payroll; document and payment tracking; and research planning. Compass is a Web-based, open architecture application managed at the CGI Federal Phoenix Data Center, a certified shared service provider.

## Limitations of the Principal Financial Statements

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The EPA prepared the principal financial statements to report the financial position and results of its operations of the reporting entity, pursuant to the requirements of 31 U.S.C. 3515 (b). EPA has prepared the statements from the books and records of the entity in accordance with federal generally accepted accounting principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. government.

# IMPROVING MANAGEMENT AND RESULTS

## Office of Inspector General Audits, Evaluations, and Investigations

OIG contributes to EPA's mission to protect human health and the environment by assessing the efficiency and effectiveness of the agency's program management and results. OIG ensures that agency resources are used as intended, develops recommendations for improvements and cost savings, and provides oversight and advisory assistance in helping EPA carry out its objectives. The OIG detects and prevents fraud, waste and abuse to help the agency protect human health and the environment more efficiently and cost effectively. The OIG performs its mission through independent oversight of the programs and operations of EPA. The OIG also contributes to the oversight integrity of and public confidence in the agency's programs and to the security of its resources by preventing and detecting possible fraud, waste, and abuse and pursuing judicial and administrative remedies.

In FY 2019, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 240 recommendations accounting for over \$314.0 million in potential savings and recoveries;
- 119 actions taken by the Agency for improvement from OIG recommendations; and
- 384 criminal, civil, or administrative enforcement actions.

## Grants Management

EPA has two major grants management metrics, one for grant competition, the other for grants closeout. For FY 2019, the agency exceeded the grant competition metric by 5%, and was just under both the 99% and 90% targets for grant closeouts.

Grants Management Performance Measures for EPA			
Performance Measure	Target	Progress in FY 2019	Progress in FY 2018
Percentage of eligible grants closed out	90%*	87.3% of grants that expired in 2018	83.3 % of grants that expired in 2017
	99%**	97.7% of grants that expired in 2017 and earlier	99% of grants that expired in 2016 and earlier
Percentage of new grants subject to the competition policy that are competed***	90%	95%	93%

\*Percentage of open grants that expired in 2018 that were closed in performance year.

\*\*Percentage of open grants that expired in 2017 and earlier that were closed in performance year.

\*\*\*The Environmental Protection Agency Policy for Competition of Assistance Agreements establishes requirements for the competition of assistance agreements (grants, cooperative agreements, and fellowships) to the maximum extent practicable.

# ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## **Federal Managers' Financial Integrity Act (FMFIA)**

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FMFIA requires agencies to conduct on-going evaluations of their internal controls and financial management systems and report the results to the President and Congress.

During FY 2019, the EPA evaluated its internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The Agency operates a comprehensive internal control program, which ensures compliance with the requirements of FMFIA and other laws and regulations. Each year, the EPA's national program and regional offices conduct assessments and submit annual assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Administrator's overall statement of assurance on the adequacy of the EPA's internal controls over operations and financial management systems.

In FY 2019, the EPA identified one new material weakness related to the agency's preparation of the financial statements. The Agency had one existing material weakness related to internal controls over financial reporting and has completed all corrective actions for this weakness. The EPA remains committed to eliminating its weaknesses and continues to emphasize the importance of maintaining effective internal controls in order to comply with FMFIA and other applicable laws and regulations.

### ***Internal Controls Over Financial Reporting***

The Agency has evaluated the key internal controls spanning its financial processes. Based on this evaluation, no new material weaknesses were identified. Subsequent to the Agency's review, the EPA's OIG identified one new material weaknesses during the FY 2019 financial statement audit.

### ***Internal Controls Over Financial Management Systems***

The Federal Financial Management Improvement Act requires agencies to ensure that financial management systems consistently provide reliable data that comply with government-wide principles, standards, and requirements. Based on the Agency's evaluation of its financial management systems, no new material weaknesses were identified. The assessment included a review of the Agency's core financial system, Compass Financials, as well as those considered as financially related or mixed systems that support or interface with the core financial system. The EPA has determined that its financial management systems substantially comply with FFMIA requirements. Based on the results of the Agency's and the OIG's FY 2019 evaluations, the Administrator can provide reasonable assurance on the adequacy and effectiveness of the EPA's internal controls over financial management systems.

## **The Digital Accountability and Transparency Act**

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The DATA Act of 2014 was designed to increase the standardization and transparency of federal spending. It requires agencies to report data, consistent with data standards established by OMB and the Department of the Treasury, for publication on USASpending.gov.

In FY 2017, the EPA certified compliance with OMB guidance and provided reasonable assurance that



internal controls support the reliability and validity of account-level and award-level data reported on USASpending.gov. This level of assurance in the internal controls was enabled through three elements of the EPA DATA Act submission process: 1) establishment of the DATA Act Evaluation and Approval Repository Tool; 2) multi-level approval process; and 3) documentation of all associated warnings in its statement of assurance.

The DEAR Tool was designed to transform data to meet the data standards, pre-validate all of the warnings and edits that would be triggered when submitting the information to the DATA Act broker, and to standardize and fully document the multi-level approval process, culminating in the Senior Accountable Official approval.

The multi-level approval process within the DATA Act submission process allowed all parties of the approval process to be briefed and fully comprehend the issues present and documented within the files. The approval process consists of three “lock-downs” of the data starting with the case manager, who is responsible for overseeing the review of the warnings and edits associated with the DATA Act. Next, the Office Director (SES) is briefed on the analysis of the DATA Act files, which includes an explanation as to why particular warnings could not be fully resolved. The final briefing is to give the appropriate assurance to the SAO and to address questions or concerns prior to certification that the files fully comply with the law.

The Statement of Assurance is the central piece of information for the Agency to document its data issues that triggered the DATA Act warnings but remain unresolved. The EPA’s approach was to address all data issues that could easily be resolved with changes to the host financial system or the DEAR, but for what could not be addressed timely, to fully document the cause of the warnings within the Statement of Assurance. Therefore, the EPA used the Statement of Assurance as the document to illustrate that even though our data had flaws, the Agency understood and thought about the issues in the larger context of the DATA Act submission.

In FY 2019, the agency continued to provide accurate and timely data for the DATA Act. The agency has continually worked to resolve data issues as they have arisen during submissions or in the form of warnings. Also, in FY 2019, the agency developed its Data Quality Plan, as per Treasury guidance. The goal of this plan is to look at areas of data quality to help improve the presentation within USASpending.gov. Many of the issues identified in the plan are long-term and multi-year projects, as they involve improving the integration between administrative and financial systems. However, the agency also identified some short-term action items that can be investigated and implemented in FY 2020.

## Federal Financial Management Improvement Act (FFMIA)

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FFMIA requires that agencies implement and maintain financial management systems that comply with 1) federal financial management system requirements, 2) applicable federal accounting standards, and 3) the U.S. Standard General Ledger (USSGL). Annually, Agency heads are required to assess and report on whether these systems comply with FFMIA.

EPA's FY 2019 assessment included the following:

- A-123 review found no significant deficiencies.
- An Office of Inspector General's (OIG) FY 2019 report identified items in the information security program as a management challenge. The report states:
  - The Agency lacks a holistic approach to managing accountability over its contractors and lacks follow-up on corrective actions taken. The Agency closed one of the two applicable findings in July 2019 and submitted documentation to close the second in September 2019.
  - Agency personnel did not create the required Plan of Action and Milestones (POA&M) to correct unremediated weaknesses for their respective systems. The Agency subsequently developed and provided a corrective action plan with a milestone date for implementing a strategy to address the deficiency. As part of the strategy, the EPA further acknowledged that it would implement an appropriate control to validate that agency personnel are creating POA&Ms to manage weaknesses from vulnerability scans.
  - The Agency lacks two key management controls over its information security weakness tracking system: controls that allow only authorized activities to occur and controls that reflect data modification in audit logs. The Agency established a process to periodically review settings in the agency's information security weakness tracking system to validate that each setting is appropriately implemented and compliant with the agency's standards. The Agency is collaborating with the tracking system vendor and, if possible, will implement system changes to capture data changes.
- The Agency's annual Federal Information Security Modernization Act Report is not final as of this draft. Several weaknesses have been identified and a complete accounting will be provided in the final submission.
- The Agency conducted other systems-related activities, including:
  - Third-party control assessments
  - Network scanning for vulnerabilities
  - Annual certification for access to the Agency's accounting system

Based on the assessment described above, the Agency is in compliance with the FFMIA for FY 2019.

MANAGEMENT'S  
DISCUSSION & ANALYSIS

# SECTION 1

## IN THIS SECTION

// About the Department of Health and Human Services

// Performance Goals, Objectives, and Results

// Looking Ahead to 2020

// Systems, Legal Compliance, and Internal Control

// Management Assurances

// Financial Summary and Highlights



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## About the Department of Health and Human Services

### Our Mission

The mission of the United States (U.S.) Department of Health and Human Services (HHS or the Department) is to enhance the health and well-being of Americans, by providing for effective health and human services and by fostering sound, sustained advances in the sciences underlying medicine, public health, and social services.

### Who We Are

HHS is the U.S. Government's principal agency for protecting the health of all Americans and providing essential human services, especially for those who are least able to help themselves. HHS accomplishes its mission through programs and initiatives that cover a wide spectrum of activities, serving and protecting Americans at every stage of life.

HHS is responsible for more than a quarter of all federal outlays and administers more grant dollars than all other federal agencies combined. HHS's Medicare program is the nation's largest health insurer, handling more than one billion claims per year. Medicare and Medicaid together provide health care insurance for 1 in 3 Americans.

### What We Do

HHS works closely with state, local, tribal governments, state or county agencies, private sector grantees, tribes, tribal organizations, and Urban Indian organizations that provide many HHS-funded services at the local level. The HHS Office of the Secretary and the 11 Operating Divisions (OpDivs), including 8 Public Health Service and 3 human service agencies of HHS administer more than 300 programs covering a wide spectrum of activities. While HHS is a domestic agency working to protect and promote the health and well-being of the American people, the interconnectedness of our world requires that HHS engage globally to fulfill its mission. In addition, Staff Divisions (StaffDivs) provide leadership, direction, and policy guidance to the Department.

### Did you know?

Between February 2014 and November 2016, the Food and Drug Administration's (FDA) award-winning "[The Real Cost](#)" campaign prevented up to 587,000 youths ages 11-19 from trying cigarettes. This smoking prevention campaign educates more than 10 million at-risk youth in the U.S. about the harmful effects tobacco. FDA's [Youth Tobacco Prevention Plan](#) will expand "The Real Cost" campaign to help teens understand the risks of e-cigarettes. To learn more about the real cost of tobacco, smoking, and vaping, visit [TheRealCost.BeTobaccoFree.hhs.gov](http://TheRealCost.BeTobaccoFree.hhs.gov).





HHS, through its programs and partnerships:

- Provides health care coverage to more than 100 million people through Medicare, Medicaid, and the Children's Health Insurance Program (CHIP);
- Promotes patient safety and health care quality in health care settings and by health care providers by assuring the safety, effectiveness, quality, and security of foods, drugs, biologics, and medical devices;
- Conducts health, social science, and medical research while creating hundreds of thousands of jobs for scientists in universities and research institutions in every state across America and around the globe;
- Leverages health information technology (IT) to improve the quality of care and to use data to drive innovative solutions to health care, public health, and human services challenges;
- Improves maternal and infant health; promotes the safety, well-being, and healthy development of children and youth; and supports young people's successful transition to adulthood;
- Supports wellness efforts across the life span, from protecting mental health, to preventing risky behaviors such as tobacco use and substance abuse, to promoting better nutrition and physical activity;
- Prevents and manages the impacts of infectious diseases and chronic diseases and conditions, including the top causes of disease, disability, and death;
- Serves as a responsible steward of the public's investments; and
- Prepares and protects Americans by providing comprehensive responses to health, safety, and security threats, both foreign and domestic, natural or man-made.

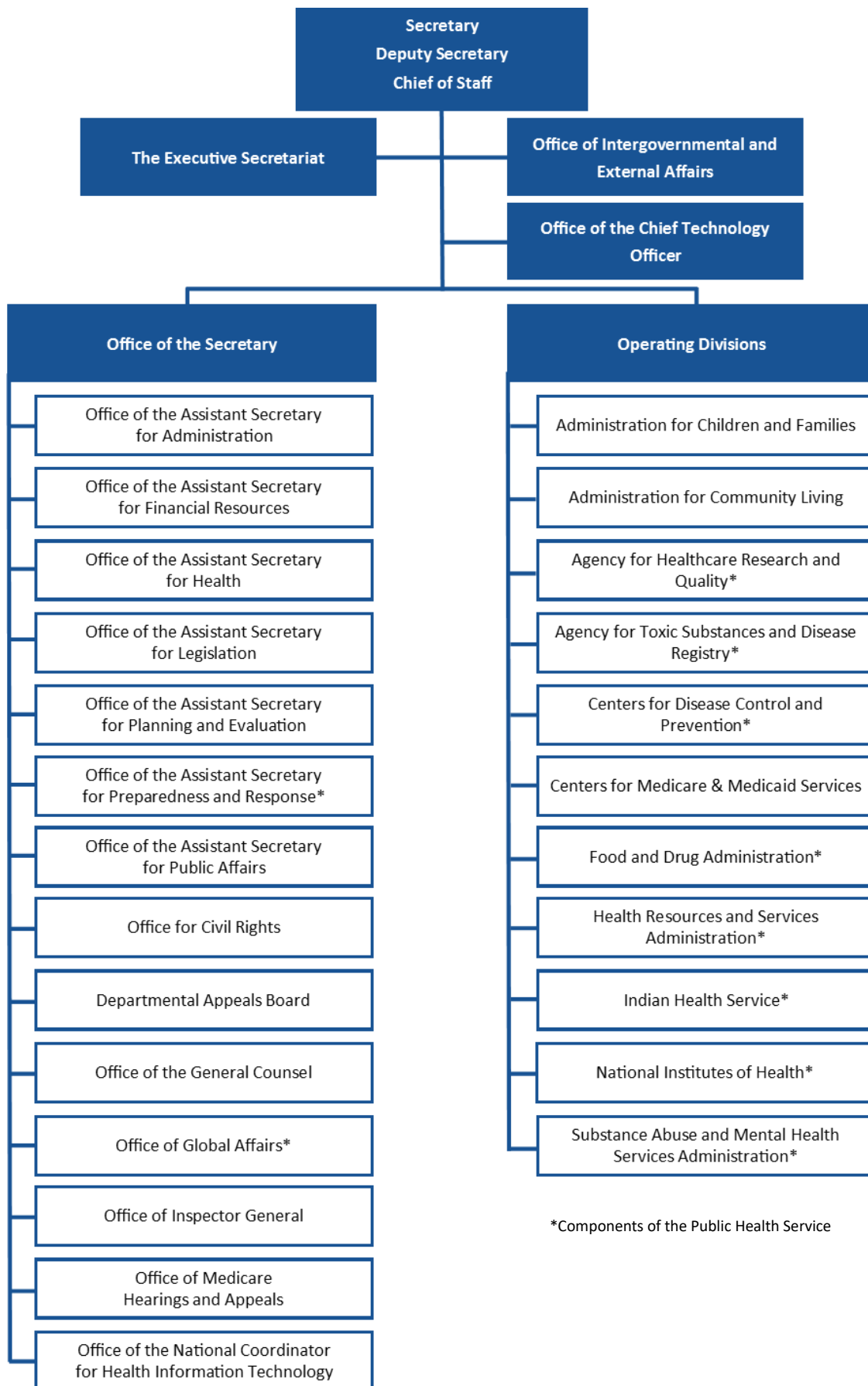
### Did you know?



Serious difficulty seeing is the fifth most common form of disability among adults with disabilities in the U.S. The Centers for Disease Control and Prevention supports 19 state disability and health programs and 2 National Centers on Health Promotion for People with Disabilities, all of which promote healthy lifestyles and improving quality of life for people with disabilities. To learn more, visit [Centers for Disease Control and Prevention.gov](https://www.cdc.gov/ncbddd/disabilityandhealth/).

### Organizational Structure

HHS's organizational structure is designed to accomplish its mission and provide a framework for sound business operations and management controls. The Office of the Secretary, with the Secretary, provides the overarching vision and strategic direction for the Department, and leads HHS and its OpDivs to provide a wide range of services and benefits to the American people. The HHS organizational chart is presented on the next page. For additional information, refer to the [HHS website](https://www.hhs.gov/).







Each OpDiv contributes to our mission and vision as follows:

### ADMINISTRATION FOR CHILDREN AND FAMILIES (ACF)

ACF is responsible for federal programs that promote the economic and social well-being of families, children, individuals and communities. ACF programs aim to empower families and individuals to increase their economic independence and productivity, and encourage strong, healthy, supportive communities that have a positive impact on quality of life and the development of children. Visit [ACF](#) for more information.



### ADMINISTRATION FOR COMMUNITY LIVING (ACL)

ACL was created around the fundamental principle that all people, regardless of age or disability, should be able to live independently, and fully participate in their communities. By advocating across the federal government for older adults, people with disabilities, and families and caregivers; funding services and supports primarily provided by networks of community-based organizations; and investing in training, education, research, and innovation, ACL helps make this principle a reality for millions of Americans. Visit [ACL](#) for more information.



### AGENCY FOR HEALTHCARE RESEARCH AND QUALITY (AHRQ)

AHRQ produces evidence to make health care safer, higher quality, more accessible, equitable, and affordable, and works within HHS and with other partners to make sure that evidence is understood and used. This mission is supported by focusing on: (1) investing in research on the nation's health delivery system that goes beyond the "what" of health care to understand "how" to make health care safer and improve quality; (2) creating materials to teach and train health care systems and professionals to put the results of research into practice; and (3) generating measures and data used by providers and policymakers. Visit [AHRQ](#) for more information.



### AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY (ATSDR)

ATSDR is charged with the prevention of exposure to toxic substances and the prevention of the adverse health effects and diminished quality of life associated with exposure to hazardous substances from waste sites, unplanned releases, and other sources of pollution present in the environment. Visit [ATSDR](#) for more information.



### CENTERS FOR DISEASE CONTROL AND PREVENTION (CDC)

CDC collaborates to create the expertise, information, and tools that people and communities need to protect their health through health promotion, prevention of disease, injury and disability, and preparedness for new health threats. CDC works to protect America from health, safety, and security threats, both foreign and domestic. Whether diseases start at home or abroad, are curable or preventable, due to human error or deliberate attack, CDC fights diseases and supports communities and citizens to do the same. Visit [CDC](#) for more information.





## CENTERS FOR MEDICARE & MEDICAID SERVICES (CMS)

CMS administers Medicare, Medicaid, CHIP, and the Health Insurance Exchanges, which together provide health care coverage for more than 100 million people. CMS acts as a catalyst for enormous changes in the availability and quality of health care for all Americans. In addition to these programs, CMS has the responsibility to ensure effective, up-to-date health care coverage, and to promote quality care for beneficiaries. Visit [CMS](https://www.cms.gov) for more information.



### Did you know?

Medicare is composed of different parts that cover specific services.

#### Medicare Part A (Hospital Insurance)

Part A covers inpatient care in hospitals, including critical access hospitals, and skilled nursing facilities (not custodial or long-term care). It also helps cover hospice care and some home health care. Beneficiaries must meet certain conditions to get these benefits. Most people do not pay a premium for Part A because they or a spouse already paid for it through their payroll taxes while working.

#### Medicare Part B (Medical Insurance)

Part B covers doctors' services and outpatient care. It also covers some other medical services that Part A does not cover, such as services of physical and occupational therapists, and some home health care. Part B helps pay for these covered services and supplies when they are medically necessary. Most people pay a premium for Part B.

#### Medicare Fee-for-Service

Often referred to as the "Original Medicare," Medicare Fee-for-Service (FFS) is a federal health insurance program that provides Medicare Part A and Medicare Part B to eligible citizens.

#### Medicare Part C (Medicare Advantage)

Medicare pays a fixed amount to approved private companies to offer Part C Medicare Advantage Plans. Part C provides the same coverage benefits as Part A and Part B, and may offer Part D coverage or other extra coverage options (e.g., vision, hearing, dental and/or health and wellness programs). Private Medicare Advantage companies must follow requirements set by Medicare; however, Part C plans can have varying amounts of out-of-pocket costs or qualification rules based on the coverage provider.

#### Medicare Part D (Prescription Drug Coverage)

Medicare prescription drug coverage is available to everyone with Medicare. To get Medicare prescription drug coverage, people must join a prescription drug plan approved by Medicare. Most people pay a monthly premium for Part D.

Visit [Medicare.gov](https://www.Medicare.gov) to find more information.





## FOOD AND DRUG ADMINISTRATION (FDA)

FDA is responsible for protecting the public health by assuring the safety, efficacy, and security of human and veterinary drugs, biological products, medical devices, our nation's food supply, cosmetics, and products that emit radiation. FDA is also responsible for advancing public health by helping to speed innovations that make medicines more effective, safer, and more affordable, and by helping the public get the accurate, science-based information it needs to use medicines and foods to maintain and improve their health. FDA is also responsible for regulating the manufacturing, marketing, and distribution of tobacco products to protect the public health and to reduce tobacco use by minors. Finally, FDA plays a significant role in the nation's counterterrorism capability. FDA fulfills this responsibility by ensuring the security of the food supply and by fostering development of medical products to respond to deliberate and naturally emerging public health threats. Visit [FDA](#) for more information.



## HEALTH RESOURCES AND SERVICES ADMINISTRATION (HRSA)

HRSA programs provide health care to people who are geographically isolated, economically, or medically vulnerable. This includes people living with HIV/AIDS, pregnant women, mothers, and their families, and those otherwise unable to access high-quality health care. HRSA also supports access to health care in rural areas, the training of health professionals, the distribution of providers to areas where they are needed most, and improvements in health care delivery. In addition, HRSA oversees organ, bone marrow, and cord blood donation. It compensates individuals harmed by vaccination, and maintains databases that flag providers with a record of health care malpractice, waste, fraud, and abuse for federal, state, and local use. Visit [HRSA](#) for more information.



## INDIAN HEALTH SERVICE (IHS)

IHS is responsible for providing federal health services to American Indians and Alaska Natives. The provision of health services to members of federally recognized tribes grew out of the special government-to-government relationship between the federal government and Indian tribes. IHS is the principal federal health care provider and health advocate for the Indian people, with the mission of raising the physical, mental, social, and spiritual health of American Indians and Alaska Natives to the highest level. IHS provides a comprehensive health service delivery system for approximately 2.6 million American Indians and Alaska Natives who belong to 573 federally recognized tribes in 37 states. Visit [IHS](#) for more information.



## NATIONAL INSTITUTES OF HEALTH (NIH)

NIH is the primary agency of the U.S. Government responsible for biomedical and public health research. NIH provides leadership and direction to programs designed to improve the health of the nation by seeking fundamental knowledge about the nature and behavior of living systems and the application of that knowledge to enhance health, lengthen life, and reduce illness and disability. Visit [NIH](#) for more information.



## SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION (SAMHSA)

SAMHSA is responsible for reducing the impact of substance abuse and mental illness on America's communities. SAMHSA accomplishes its mission by providing leadership, developing service capacity, communicating with the public, setting standards, and improving behavioral health practice in communities, in both primary and specialty care settings. Visit [SAMHSA](#) for more information.





The following StaffDivs report directly to the Secretary, managing programs and supporting the OpDivs in carrying out the Department's mission. The primary goal of the Department's StaffDivs is to provide leadership, direction, and policy guidance to the Department. The StaffDivs are:

### **IMMEDIATE OFFICE OF THE SECRETARY (IOS)**

IOS oversees the Secretary's operations and coordinates the Secretary's work.

#### **- The Executive Secretariat (ES)**

ES manages the Department's policy review and decision-making processes, coordinating the development, clearance, and submission of all policy documents for the Deputy Secretary and Secretary's review and approval.

#### **- Office of Intergovernmental and External Affairs (IEA)**

IEA represents both the government and external perspective in federal policymaking and clarifies the federal perspective to government officials and external parties.

#### **- Office of the Chief Technology Officer (CTO)**

CTO harnesses the power of data, technology, and innovation to create a more modern and effective government that works to improve the health of our nation.

### **OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION (ASA)**

ASA provides leadership for HHS departmental management, including human resource policy and departmental operations. The Program Support Center (PSC), a component of ASA, is a shared services organization dedicated to providing support services to help its customers achieve mission-oriented results.

### **OFFICE OF THE ASSISTANT SECRETARY FOR FINANCIAL RESOURCES (ASFR)**

ASFR provides advice and guidance to the Secretary on budget, financial management, acquisition policy and support, grants management, and small business programs. It also directs and coordinates these activities throughout the Department.

### **OFFICE OF THE ASSISTANT SECRETARY FOR HEALTH (OASH)**

OASH advises on the nation's public health and oversees HHS's U.S. Public Health Service for the Secretary.

### **OFFICE OF THE ASSISTANT SECRETARY FOR LEGISLATION (ASL)**

ASL provides advice on legislation and facilitates communication between the Department and Congress.

### **OFFICE OF THE ASSISTANT SECRETARY FOR PLANNING AND EVALUATION (ASPE)**

ASPE advises on policy development and contributes to policy coordination, legislation development, strategic planning, policy research, evaluation, and economic analysis.



**OFFICE OF THE ASSISTANT SECRETARY FOR PREPAREDNESS AND RESPONSE (ASPR)**

The mission of ASPR is to save lives and protect Americans from 21st century health security threats. ASPR leads the nation's medical and public health preparedness for, response to, and recovery from disasters and public health emergencies. ASPR collaborates with hospitals, healthcare coalitions, biotech firms, community members, state, local, tribal, and territorial governments, and other partners across the country to improve readiness and response capabilities.

**OFFICE OF THE ASSISTANT SECRETARY FOR PUBLIC AFFAIRS (ASPA)**

ASPA provides centralized leadership and guidance on public affairs for HHS's StaffDivs, OpDivs, and regional offices. ASPA also administers the *Freedom of Information and Privacy Act*.

**OFFICE FOR CIVIL RIGHTS (OCR)**

OCR enforces federal laws that prohibit discrimination on the basis of race, color, national origin, disability, sex, age, religion, or conscience by health care and human services providers that receive funds from HHS as well as the federal laws and regulations governing the privacy and security of health information and the rights of individuals with respect to their health information.

**DEPARTMENTAL APPEALS BOARD (DAB)**

DAB provides impartial review of disputed legal decisions involving HHS.

**OFFICE OF THE GENERAL COUNSEL (OGC)**

OGC provides quality representation and legal advice on a wide range of highly visible national issues.

**OFFICE OF GLOBAL AFFAIRS (OGA)**

OGA provides leadership and expertise in global health diplomacy and policy to protect the health and well-being of Americans.

**OFFICE OF INSPECTOR GENERAL (OIG)**

OIG protects the integrity of HHS programs as well as the health and welfare of the program participants.

**OFFICE OF MEDICARE HEARINGS AND APPEALS (OMHA)**

OMHA administers nationwide hearings for the Medicare program.

**OFFICE OF THE NATIONAL COORDINATOR FOR HEALTH INFORMATION TECHNOLOGY (ONC)**

ONC provides counsel for the development and implementation of a national health IT framework.

For more information regarding our organization, visit [our website](#).

## Performance Goals, Objectives, and Results

### Overview of Strategic and Agency Priority Goals

The *Government Performance and Results Act Modernization Act of 2010* (GPRAMA) requires agencies to update their strategic plans every 4 years. The [HHS Fiscal Year \(FY\) 2018—2022 Strategic Plan](#) identifies the Department’s mission and its strategic goals and objectives. Each of the Department’s OpDivs and StaffDivs contributes to the development of the [Strategic Plan](#). HHS tracks progress on each strategic objective through performance goals, which HHS reports annually in the [HHS Annual Performance Plan and Report](#). In addition, HHS engages in a variety of efforts to support the Secretary’s Agency Priority Goals (APGs), the President’s Management Agenda (PMA), and the government-wide Cross-Agency Priority (CAP) Goals.

Within HHS, Strategic Planning, Enterprise Risk Management, Performance Management, and Evaluations work closely together to strategically manage their overlapping activities and deliverables. Figure 1 below illustrates HHS’s approach to strategic management, which works to integrate planning, performance, enterprise risk management, and evaluation processes to support HHS programs. The following pages provide more information about the HHS strategic goals and objectives for FY 2018—2022.

**Figure 1: Strategic Management at HHS**







## Strategic Goals

The [HHS Strategic Plan FY 2018–2022](#) is comprised of five strategic goals, representing input from all HHS OpDivs and StaffDivs, as well as over 13,000 public comments. HHS aligns its focus, strategies, and activities to achieve these strategic goals and objectives. The Department's five strategic goals are:

1. Reform, Strengthen, and Modernize the Nation's Healthcare System
2. Protect the Health of Americans Where They Live, Learn, Work, and Play
3. Strengthen the Economic and Social Well-Being of Americans Across the Lifespan
4. Foster Sound, Sustained Advances in the Sciences
5. Promote Effective and Efficient Management and Stewardship

### Strategic Goal 1: Reform, Strengthen, and Modernize the Nation's Healthcare System

For a nation to thrive, the population must be physically and mentally healthy. To improve the nation's health, the Department is working with its public and private partners to enhance the quality of health care, while making it more affordable and accessible. Improving access to health care goes beyond affordability. HHS is working to overcome access issues, which exacerbate health problems, increase costs, and prevent better health outcomes. The Department is also making investments to strengthen and expand the health care workforce. This Strategic Goal seeks to improve health care outcomes for all people across the lifespan, including the unborn, children, youth, adults, and older adults across diverse health care settings.

#### STRATEGIC GOAL 1 STRATEGIC OBJECTIVES

- 1.1: Promote affordable healthcare, while balancing spending on premiums, deductibles, and out-of-pocket costs
- 1.2: Expand safe, high-quality healthcare options, and encourage innovation and competition
- 1.3: Improve Americans' access to healthcare and expand choices of care and service options
- 1.4: Strengthen and expand the healthcare workforce to meet America's diverse needs

#### STRATEGIC GOAL 2 STRATEGIC OBJECTIVES

- 2.1: Empower people to make informed choices for healthier living
- 2.2: Prevent, treat, and control communicable diseases and chronic conditions
- 2.3: Reduce the impact of mental and substance use disorders through prevention, early intervention, treatment, and recovery support
- 2.4: Prepare for and respond to public health emergencies

### Strategic Goal 2: Protect the Health of Americans Where They Live, Learn, Work, and Play

HHS aims to protect and improve the health of Americans by promoting health and wellness knowledge, preparing for fatal outbreaks or natural disasters, and improving accessibility to health care. HHS programs help Americans take control of their health. Healthy living involves more than avoiding risky behavior and disease; health and wellness improves with healthy eating, regular physical activity, preventive care, and positive relationships. Mental illness and substance abuse create health risks and place a heavy burden on affected individuals and their families. HHS invests in programs focused on prevention, screening, and early detection of these risks, including those related to opioid misuse. HHS also focuses on environmental health and reducing the burden caused by disease and other conditions.





### Strategic Goal 3: Strengthen the Economic and Social Well-Being of Americans Across the Lifespan

A core component of the HHS mission commits to improving the well-being of Americans, which includes those individuals and populations who are at high risk of social and economic challenges. Overall wellness goes beyond physical health: it entails positive social and economic development. HHS focuses on fostering environments where individuals and families can be socially and economically independent. A strong family can lead to many positive outcomes for the health, social, and economic status of both adults and children. HHS focuses on fostering environments where individuals and families can be socially and economically independent.

#### STRATEGIC GOAL 3 STRATEGIC OBJECTIVES

- 3.1: Encourage self-sufficiency and personal responsibility, and eliminate barriers to economic opportunity
- 3.2: Safeguard the public against preventable injuries and violence or their results
- 3.3: Support strong families and healthy marriage, and prepare children and youth for healthy, productive lives
- 3.4: Maximize the independence, well-being, and health of older adults, people with disabilities, and their families and caregivers

#### STRATEGIC GOAL 4 STRATEGIC OBJECTIVES

- 4.1: Improve surveillance, epidemiology, and laboratory services
- 4.2: Expand the capacity of the scientific workforce and infrastructure to support innovative research
- 4.3: Advance basic science knowledge and conduct applied prevention and treatment research to improve health and development
- 4.4: Leverage translational research, dissemination and implementation science, and evaluation investments to support adoption of evidence-informed practices

### Strategic Goal 4: Foster Sound, Sustained Advances in the Sciences

HHS's success is contingent on scientific advances and discovery. Scientific investments through foundations, charities, private industry, and government entities strive to unlock mysteries that improve health and well-being; reduce death, disease, and disability; and extend and improve quality of life. These types of decisions rely on data acquired through surveillance, epidemiology, and laboratory services. Achievements in science tie to the other strategic goals, such as protecting Americans from disease outbreaks or reaching advances in public health care. Success in this domain starts with a high caliber workforce devoted to achieving award-winning breakthroughs. HHS aims to expand the capacity of the research workforce, equipping them with the tools to make discoveries of the future. To be effective, HHS must share, adopt, and implement scientific discoveries with fidelity. The Department is working to promote evidence-informed practices that improve health and human service fields.





### Strategic Goal 5: Promote Effective and Efficient Management and Stewardship

HHS promotes sound stewardship for the financial resources the American taxpayers and Congress entrust to the Department through cultivation of top talent, development of robust and responsive information management systems, and the creation of a safe and secure environment for human, digital, and physical assets. Efforts such as *Relmagine HHS* improve the efficiency and accountability of the Department. *Relmagine HHS* is the Department's robust reform and transformation effort with goals to streamline processes, reduce burden, and realize cost savings. As the nation's largest grant-awarding agency, HHS is responsible for more than a quarter of federal outlays and administers more grant dollars than all other federal agencies combined. HHS prioritizes the integrity of expenditures by maintaining effective risk and internal controls for payments, grants, contracts, and other financial transactions, and by developing a financial management workforce with the expertise to comply with legislative mandates and requirements.

#### STRATEGIC GOAL 5 STRATEGIC OBJECTIVES

- 5.1: Ensure responsible financial management
- 5.2: Manage human capital to achieve the HHS mission
- 5.3: Optimize information technology investments to improve process efficiency and enable innovation to advance program mission goals
- 5.4: Protect the safety and integrity of our human, physical, and digital assets

### Agency Priority Goals

APGs are a set of ambitious but realistic performance objectives that the Department expects to achieve within a 24-month period. APG results rely on strong agency implementation and do not require new legislation or additional funding. General areas of focus for APGs include customer service, efficiencies, and advances in progress toward longer-term, outcome-focused strategic goals and objectives. The FY 2018 – 2019 APGs are:

- Increase capacity to prevent health threats originating abroad from impacting the United States;
- Reduce opioid-related morbidity and mortality;
- Increase combined data analysis of disparate datasets in order to achieve better insights; and
- Improve treatment for individuals with Serious Mental Illness.

For more information on HHS's APGs, visit [Performance.gov](https://www.performance.gov). HHS performance initiatives continue to influence plans and policies identified in the [Strategic Plan](#).

### Cross-Agency Priority Goals

CAP Goals are government-wide goals defined by the PMA and identified in Figure 2. The PMA provides a long-term vision for modernizing the federal government in key areas that will improve the ability of agencies to deliver mission outcomes, provide excellent service, and effectively steward taxpayer dollars on behalf of the American people. CAP Goals drive the implementation of the PMA. These goals provide accountability for results and utilize concrete, measurable performance indicators to track progress.



HHS aligns its management and business process improvement efforts to support CAP Goals. Senior accountable officials within the Department facilitate oversight and ensure effective progress toward goal achievement. HHS shares a government-wide leadership role on several CAP Goals, including “Results-Oriented Accountability for Grants”, “Sharing Quality Services”, and “Getting Payments Right.” For more information on HHS performance and contributions to the PMA and CAP Goals, visit [Performance.gov](https://www.performance.gov).

Figure 2: PMA CAP Goals



\* Source: President's Management Agenda on [Performance.gov](https://www.performance.gov)

## Performance Management

Performance goals and measures are powerful tools to advance an effective, efficient, and productive government. HHS regularly collects and analyzes performance data to inform decisions, gauge meaningful progress toward objectives, and identify more cost-efficient ways to achieve results. Responding to opportunities afforded by GPRAMA, HHS continues to institute significant performance management improvements that include:

- Developing, analyzing, reporting, and managing APGs, and conducting quarterly performance reviews between HHS OpDiv/StaffDivs and HHS leadership to monitor progress toward achieving key performance objectives;
- Conducting the Strategic Reviews process to support decision-making and performance improvement across the Department;
- Overseeing and aligning Strategic Planning, Budgeting, Enterprise Risk Management, and Performance Management activities within the Department;
- Fostering a network of OpDiv/StaffDiv Performance Officers who support, coordinate, and implement performance management efforts across HHS; and
- Sharing best practices in performance management at HHS through webinars and other media.





## Data Quality

HHS follows GPRAMA guidelines for reporting data quality. For all measures that appear in APG reporting or in the [HHS Strategic Plan](#), HHS publicly reports:

- Processes used to verify and validate measured values;
- Sources for the data;
- Confirmation that the data meets the level of accuracy required for its intended use;
- Any limitations to the data at the required level of accuracy; and
- How the agency will compensate for such limitations if needed to reach the required level of accuracy.

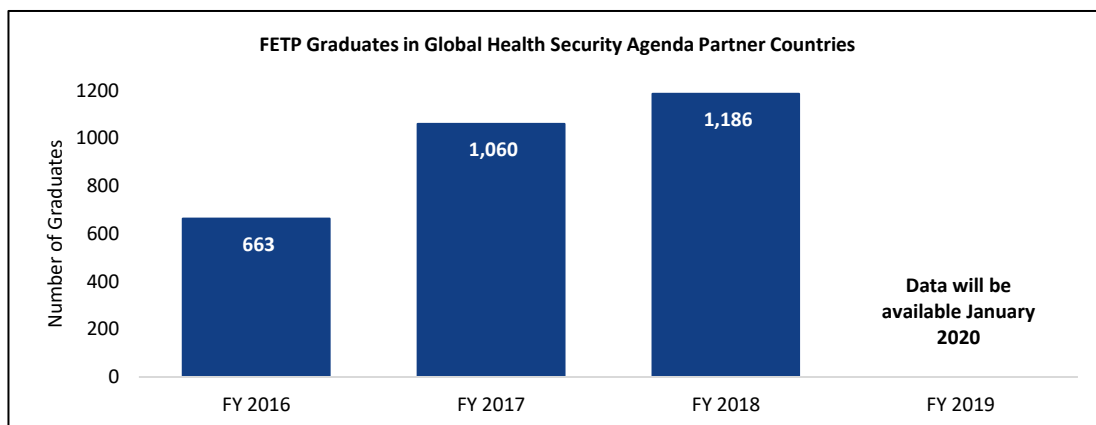
Each agency within HHS is responsible for certifying that these data undergo a thorough quality assurance process and provides to the Performance Improvement Officer a signed letter of attestation. Data quality information for the APG-related measures mentioned below can be found online at [Performance.gov](#). Data source and validation information on other data analyses, such as improper payment measures discussed in the “Other Information” section, can be found at [HHS Budget and Performance](#).

## Performance Results

In FY 2019, HHS monitored over 900 performance measures to manage departmental programs and activities, and to improve the efficiency and effectiveness of these programs. For this report, HHS chose to highlight the achievements in three APGs: Health Security, Reducing Opioid Morbidity and Mortality, and Serious Mental Illness. For more detailed information on HHS’s APG accomplishments, refer to the HHS page on [Performance.gov](#).

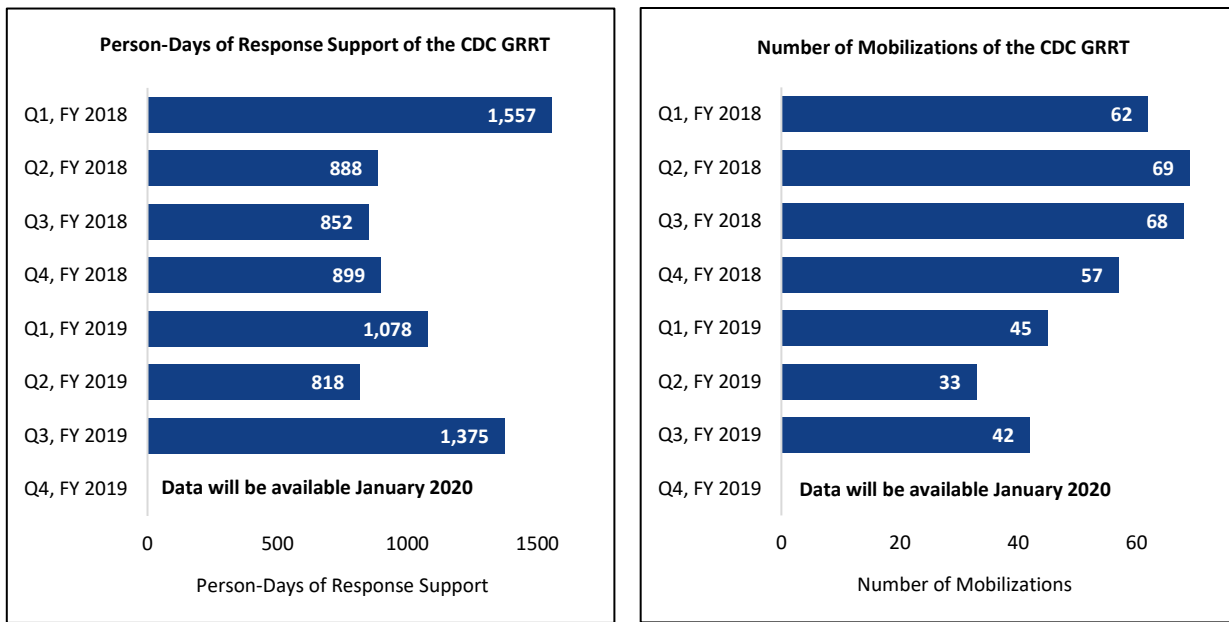
**Health Security.** Infectious diseases originating abroad can quickly and unpredictably spread to the U.S. HHS works with partner countries to improve their capacities to prevent, detect, and respond to health threats at their points of origin. For this APG, HHS has focused on building capacity in 17 partner countries. HHS’s International Field Epidemiology Training Programs (FETP), are a key resource for strengthening countries’ capacities for surveillance, epidemiology, and outbreak response. HHS has implemented FETP in over 70 countries, which include the 17 partner countries identified for the Health Security APG.

FETP programs provide on-the-job training to build critical skills for effectively conducting infectious disease surveillance at the local level. Graduates are trained disease detectives with the skills to collect, analyze, and quickly interpret disease information to save lives. FETP graduates assist their countries in transitioning from U.S.-led global health investments to long-term host country ownership of the methods for detection and prevention.





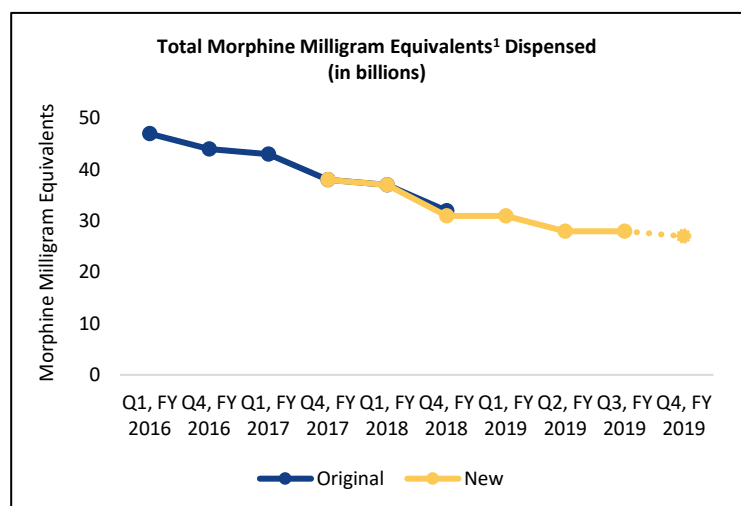
HHS maintains the capability to rapidly provide personnel and operational resources for health threats in its partner countries. For example, HHS's Global Rapid Response Team (GRRT) is a highly trained workforce ready to deploy on short notice anywhere in the world. GRRT provides emergency response staff, and employs and deploys field-based leaders, scientific experts, and support for response management and operations. The data presented capture the impact of U.S.-supported activities. HHS will report how much progress each partner country made from FY 2018—2019 on [Performance.gov](https://www.performance.gov).



**Reducing Opioid Morbidity and Mortality.** Opioid misuse and overdose present a nationwide public health challenge. Death by drug overdose is the leading cause of injury death in the U.S. Overdose deaths involving heroin have increased significantly in recent years. There were 6.5 times more heroin overdose deaths in 2017 than in 2007. The surge of fentanyl use has been the main driver in increasing synthetic opioid deaths. In response to this public health emergency, HHS announced a [5-Point Strategy](#) for combatting opioid morbidity and mortality:

1. Improve access to prevention, treatment, and recovery support services;
2. Target the availability and distribution of overdose-reversing drugs;
3. Strengthen public health data and reporting;
4. Support cutting-edge research; and
5. Advance the practice of pain management.

HHS has continued to monitor progress on the implementation of this [5-Point Strategy](#) through a variety of reporting tools, which include the HHS Reducing Opioid Morbidity and Mortality APG. This APG reports multiple key indicators; HHS provides three in this report – decrease the Morphine Milligram Equivalents dispensed,



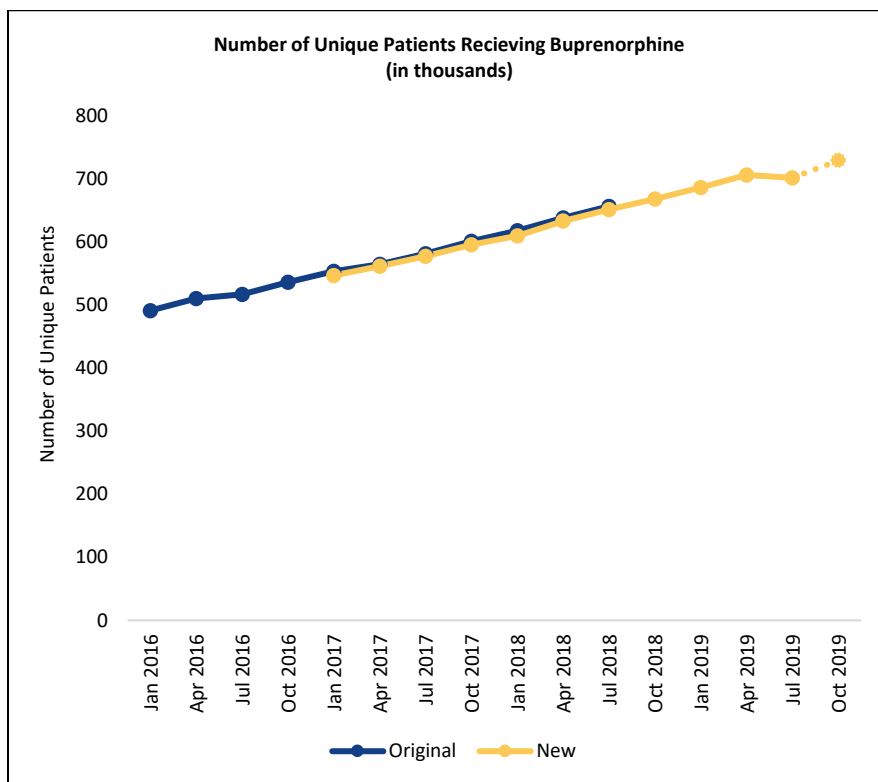
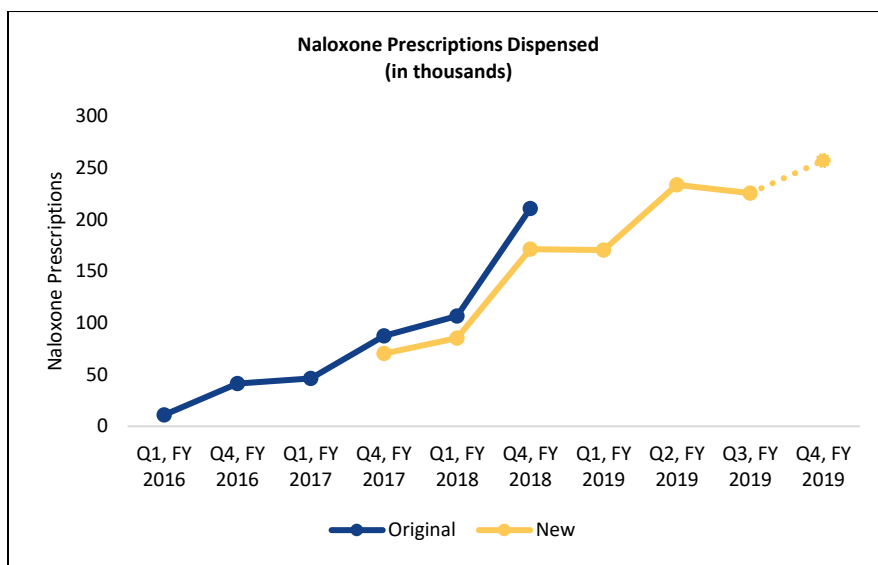
<sup>1</sup> Morphine Milligram Equivalents is a standardized unit of the amount of opioid prescribed that allows HHS to combine opioids of varying potencies and dosages into one composite measure.





increase naloxone access, and increase the number of unique patients receiving buprenorphine prescriptions. Please refer to [Performance.gov](https://www.performance.gov) for information on the remaining key indicators and other report updates.

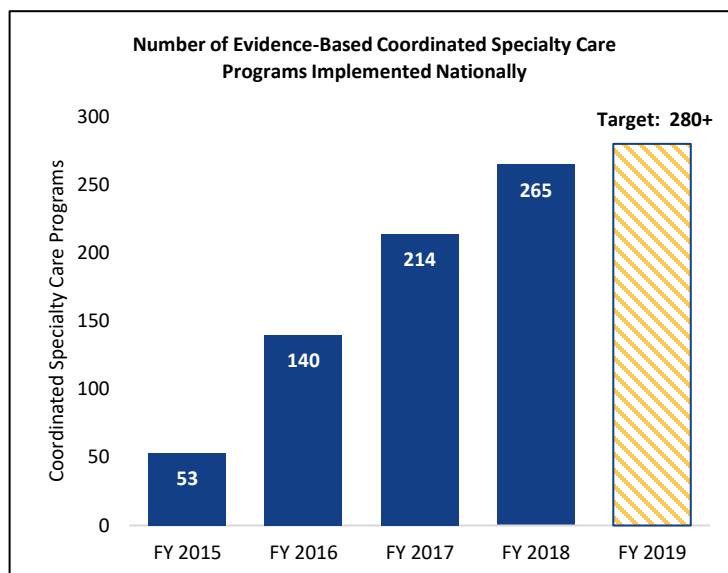
In FY 2019, HHS began reporting data that exclude voided or reversed prescriptions. This change caused a break in the trend lines between FY 2018 and FY 2019. HHS revised the targets for these measures to reflect the baseline of the new dataset. HHS increased the target for Naloxone Prescriptions Dispensed based on linear projections for FY 2017—2018 data. The new target is a 150 percent increase in prescriptions in FY 2019. A dotted line in the charts indicates targets for FY 2019. FY 2019 end-of-year results will be available by December 2019.







**Serious Mental Illness.** Approximately 114,000 youth and young adults experience a first episode of psychosis (FEP) every year, with life-altering disruptions in school, work, and social adjustment. Typically, treatment for FEP is delayed 1 to 3 years after symptoms appear, and treatment is often fragmented and ineffective. Without timely and effective care, symptoms and functional impairments typically worsen, and individuals are at high risk for suicide, substance misuse, school dropout/unemployment, criminal justice involvement, and involuntary hospitalization. Most communities lack the infrastructure and programming to address this critical period. Coordinated Specialty Care is an evidence-



based practice that uses an interdisciplinary team approach to provide personalized care to individuals with FEP. A required 10 percent early intervention set-aside within the SAMHSA Mental Health Block Grant (MHBG) provides a platform for states to build Coordinated Specialty Care programs.<sup>1</sup> FY 2019 data for this measure will be available in March 2020.

## Did you know?

One in five people in the U.S. have a mental health condition. Mental health challenges are not always obvious. To learn more about signs and symptoms of mental health conditions, visit the [National Institute of Mental Health website](https://www.nimh.nih.gov/mental-health). For general information on mental health and to locate local treatment services, visit the [Substance Abuse and Mental Health Services Administration website](https://www.samhsa.gov/substance-abuse-and-mental-health-services).



<sup>1</sup> Each state that receives a SAMHSA MHBG must use 10 percent of that grant to support evidence-based programs that provide treatment for those with FEP.





## Looking Ahead to 2020

HHS is the U.S. Government's principal agency for protecting the health of all Americans and providing essential human services, especially for those who are least able to help themselves. While HHS is a domestic agency, the interconnectedness of our world requires HHS to engage globally to fulfill its mission. Our 11 OpDivs, including 8 agencies in the U.S. Public Health Service and 3 human services agencies, administer HHS's programs. In addition, StaffDivs provide leadership, direction, and policy guidance to achieve the Department's strategic goals and objectives.

Through the guidance of the [HHS Strategic Plan](#), in 2020 HHS will address important health care, public health, and human services issues that impact all Americans.

### **HHS Strategic Goal 1: Reform, Strengthen, and Modernize the Nation's Healthcare System**

Drug Pricing: HHS will continue its efforts to lower the list prices of prescription drugs through competition, negotiation, and pricing incentives to ensure that Americans have access to affordable prescription drugs. We will continue reforms to increase competition in areas such as approval of generic drugs and biosimilars, as well as pursue payment policies to help patients take advantage of this competition.

Insurance Reform: HHS will focus on the cost and availability of health insurance to ensure Americans have access to affordable insurance that meets their needs. In addition, we will continue our efforts to restore balance and enhance sustainability in the Medicaid program and eliminate barriers for people looking to move from dependence on Medicaid to independence.

Price and Quality Transparency: HHS will focus on improving and developing price and quality transparency initiatives to ensure that healthcare patients can make well-informed decisions about their care.

The Healthcare Workforce and Infrastructure: HHS will identify and address gaps in the health care workforce to enhance and improve the capacity of the existing workforce, and identify opportunities to maximize health care productivity.

Value Based Care: HHS is putting patients at the center of the health care system, making sure they have the information they need to determine value and make choices. We will address the value of health care services by moving from a system where payments are made based on the volume of services provided to a system where payments are based on outcomes and value.

### **HHS Strategic Goal 2: Protect the Health of Americans Where They Live, Learn, Work, and Play**

Kidney Health: HHS aims to reduce morbidity and mortality associated with end-stage renal disease and to increase patient choice by reducing the risk of kidney failure through detection, prevention, and treatment of risk factors; improving access to home-based dialysis; encouraging the development of new renal replacement therapies such as an artificial kidney; and increasing access to kidney transplants.

Maternal Health: To improve maternal health outcomes, HHS is developing strategies for women to attain and maintain healthy outcomes throughout the life course, an approach to conceptualizing health care needs and services; clinicians to screen and treat risk factors; and health systems to address maternal safety, health disparities, and social determinants of health. In support of these efforts, HHS aims to improve the quality of maternal health

data and bolster research efforts to better understand risk factors while continuing to identify effective, evidence-based, best practices in maternal health.

The Opioid Crisis: HHS will continue to empower states and local communities on the frontlines of the opioid crisis by implementing its [5-Point Strategy](#). We will advance efforts to increase access to treatment by (1) addressing workforce shortages and treatment coverage, including medication-assisted treatment; (2) increase the timeliness and accuracy of data to monitor opioid use, misuse, and overdose; (3) improve pain management with a focus on increasing the availability of effective non-opioid alternatives; (4) better target the availability of overdose-reversing drugs; and (5) support cutting edge research on pain and addiction. HHS will add to this focus efforts to address the increasing number psychostimulant-involved overdose deaths—sometimes referred to as the “fourth wave” of the opioid crisis.

Rural Health: HHS will continue to improve access to, and the quality of, care in rural and underserved areas by identifying policies that deliver the right care, at the right place, at the right time in rural America.

Suicide Prevention: HHS will increase its emphasis on and direct greater resources toward suicide prevention. Suicides rose nearly 30 percent between 1999-2016 and have increased in 49 of the 50 states with 25 states experiencing increases over 30 percent. With the rising number of suicides among adults, particularly middle-aged and older adults, focusing on preventing suicide among adults is urgently required to reduce suicide nationally.

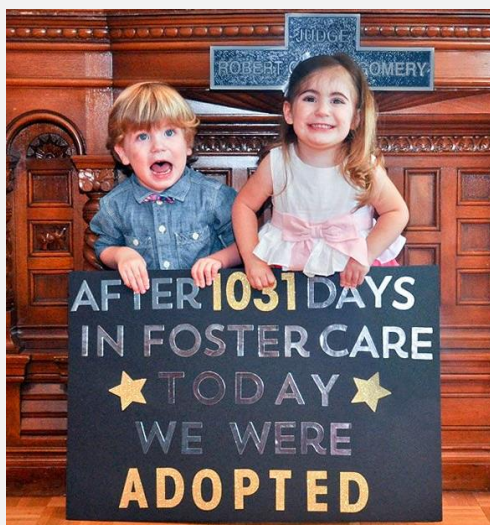
### **HHS Strategic Goal 3: Strengthen the Economic and Social Well-Being of Americans Across the Lifespan**

Dependence to Independence: To build self-sufficiency and move families from dependence to independence, HHS will strive to fully engage all Americans and move them from the economic sidelines into the workforce. We will launch the U.S. Interagency Council on Economic Mobility to streamline and coordinate federal programs and policy designed to promote work and economic mobility across the lifespan.

Child Welfare and Adoption: HHS will work to increase child and family well-being by putting greater emphasis on preventing child maltreatment. We will continue to look at increasing adoptions, an underutilized option in the U.S., for teens and women facing a crisis pregnancy, and to achieve permanency for children in the child welfare system, especially older children.

## **Did you know?**

There are more than 100,000 children and teens in foster care awaiting the love and security of a permanent home. Adoption from foster care is a great way to help a child while growing your family. To learn more about foster care, visit the [Administration for Children and Families website](#).





#### HHS Strategic Goal 4: Foster Sound, Sustained Advances in the Sciences

Data and Evidence: HHS develops, uses, and analyzes data to support the best science and generate new evidence. We are beginning to implement the *Foundations for Evidence-Based Policymaking Act of 2018* which will create a new paradigm for developing and using evidence for decision-making. Efforts across HHS continue to ensure better access to HHS data for lower-cost analysis; support patient-centered outcomes research; improve how we use evaluation and performance management data to drive learning, improvement, and analysis for better decision-making; and translate science into practice to ensure the best outcomes possible for the people served by HHS programs and policies.

#### Did you know?

The HHS Office of the Chief Technology Officer and the Chief Data Officer have been co-hosting a series of Roundtables to identify ways to improve the use and sharing of health data to achieve the HHS mission. These Roundtables discuss opportunities and strategies for sharing and utilizing health data for artificial intelligence to improve health care. To learn more about the HHS data initiative, visit the [HHS website](#).



#### HHS Strategic Goal 5: Promote Effective and Efficient Management and Stewardship

Enterprise Risk Management: Federal agencies are charged with implementing an enterprise risk management approach to address significant risks, improve mission delivery, and prioritize corrective actions. Enterprise risk management is a strategic discipline that seeks to proactively and deliberately address the full spectrum of an organization's risks. HHS uses a framework that outlines building blocks being used to develop and implement a successful enterprise risk management discipline within the Department. Making enterprise risk management part of how the Department functions improves HHS's ability to deliver on our mission of enhancing and protecting the health and well-being of all Americans.

HHS ACCELERATE: Initially part of *Reimagine HHS*, the HHS ACCELERATE program was developed to help address acquisition challenges across the Department, and enable HHS to effectively extract value from its \$24 billion spend and vast amount of behavioral and transactional data related to acquisition.

ACCELERATE is a transformative program that revamps the ways HHS acquires goods and services, conducts its acquisition operations and invests in acquisition support technology. It uses a combination of emerging technologies, including blockchain, artificial intelligence, and robotic process automation, to create and extract value from a standardized acquisition data layer. This is a first of a kind solution in government and enables acquisition savings, workforce savings through measurable process improvement such as reduced time to award, and IT investment savings. This system will revolutionize the acquisition lifecycle for all stakeholders.

## Systems, Legal Compliance, and Internal Control

### Systems

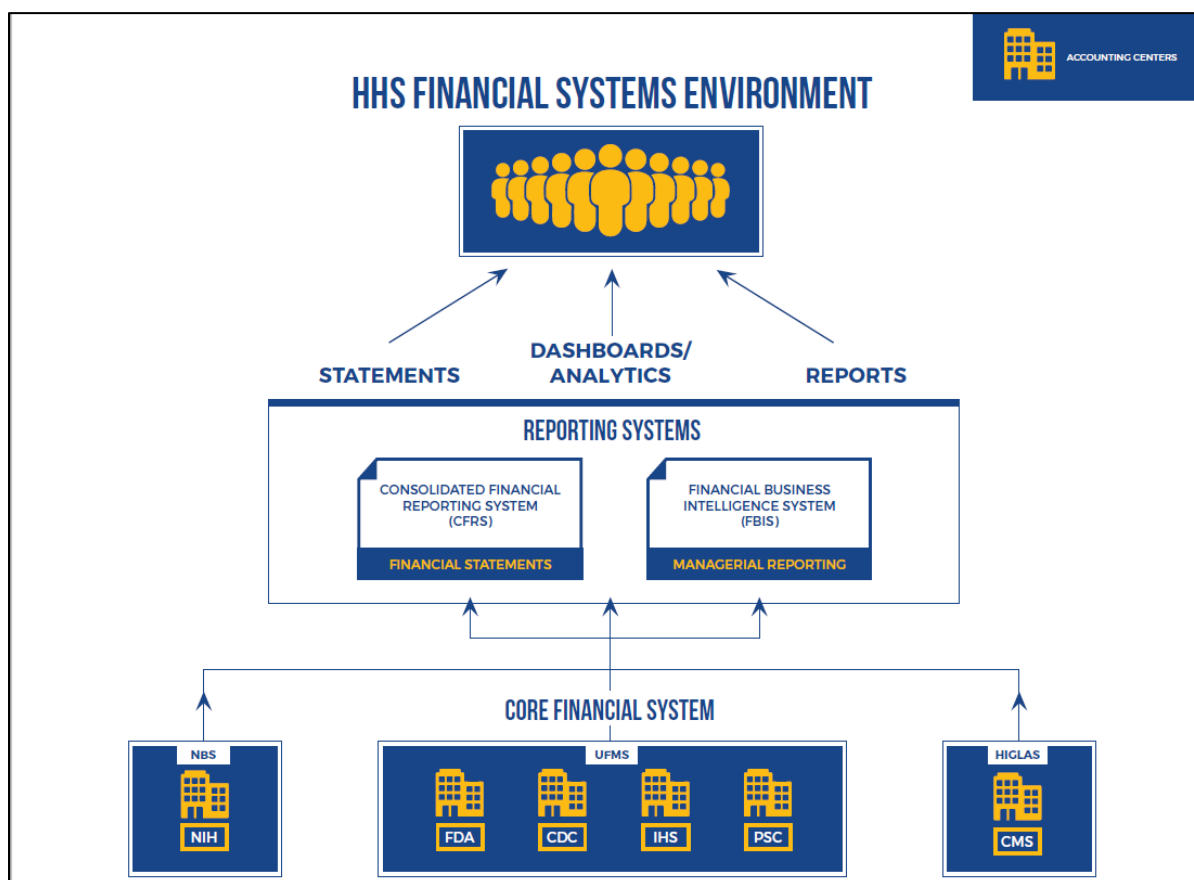
HHS's Chief Financial Officer (CFO) community continuously strives to enhance the financial management systems environment to sustain HHS's diverse portfolio of mission-oriented programs and business operations. The purpose of the financial management systems environment is to: (1) efficiently process financial transactions in support of program activities and HHS's mission; (2) provide complete and accurate financial information for decision-making; (3) improve data integrity; (4) strengthen internal control; and (5) mitigate risk.

The robust financial systems framework at HHS forms the financial and accounting foundation for managing the approximately \$1.9 trillion in budgetary resources entrusted to the Department in FY 2019.

Outlined in detail in the figure and tables that follow, the HHS financial management systems environment consists of a core financial system (with three instances, or components) and two Department-wide reporting systems used for financial and managerial reporting. Together, these systems support the Department's financial accounting and reporting needs.

Figure 3 graphically depicts the current financial management systems environment.

**Figure 3: HHS Financial Management Systems Environment**





### Core Financial System

The core financial system's three instances all operate on the same commercial off-the-shelf platform to support data standardization and facilitate Department-wide reporting.

**Three Instances of the Core Financial System**

Instance	Description
<b>Healthcare Integrated General Ledger Accounting System (HIGLAS)</b>	HIGLAS supports four lines of CMS business, which include the Medicare FFS, Medicare Secondary Payer, Federal Facilitated Marketplace, and the Administrative Program Accounting activities. It processes an average of five million transactions daily.
<b>NIH Business System (NBS)</b>	NBS combines NIH administrative processes and financial information under one centralized component, supporting NIH's diverse biomedical research program; and business, financial, acquisition and logistics requirements for 27 NIH Institutes and Centers. NBS supports grant funding to more than 300,000 researchers at over 2,500 universities, medical schools, and other research institutions in every state and around the world.
<b>Unified Financial Management System (UFMS)</b>	UFMS integrates with over 50 program, business, and administrative systems (i.e., mixed business systems) to create a secure, reliable, and highly available financial management environment supporting the following Accounting Centers: CDC, FDA, IHS, and PSC. PSC provides shared service accounting support for all other OpDivs (except CMS, NIH, and the other three UFMS Accounting Centers) and all StaffDivs.

### Reporting Systems

Reporting systems within the HHS financial management systems environment consist of two Department-wide applications that facilitate financial statement compilation, financial and managerial reporting, and data analysis.

**HHS Reporting Systems**

System	Description
<b>Consolidated Financial Reporting System (CFRS)</b>	CFRS systematically consolidates information from all three instances of the core financial system. It generates Departmental quarterly and year-end consolidated financial statements on a consistent and timely basis while supporting HHS in meeting regulatory reporting requirements.
<b>Financial Business Intelligence System (FBIS)</b>	FBIS is the financial enterprise business intelligence application that supports the information needs of HHS stakeholders at all levels by retrieving, combining, and consolidating data from the core financial system. It provides tools for analyzing data and presenting actionable information, including metrics and key performance indicators, dashboards with graphical displays, interactive reports, and ad-hoc reporting. FBIS enables executives, managers, and operational end users to make informed business decisions to support their organization's mission.





### **Relevant Legislation and Guidance**

The HHS financial management systems environment must comply with all relevant federal laws, regulations, and authoritative guidance. In addition, HHS must conform to federal financial management and systems requirements including:



### **Financial Systems Environment Improvement Strategy**

HHS continues to implement a Department-wide strategy to advance its financial systems environment through the Financial Systems Improvement Program (FSIP) and Financial Business Intelligence Program (FBIP). The portfolio of projects within these programs addresses immediate business needs and positions the Department to take advantage of state-of-the-art tools and technology. The goals of the strategy are to improve the effectiveness and efficiency of the Department's financial management capabilities, mature the overall financial systems environment, and strengthen accountability and financial stewardship. This is a multi-year initiative, and the Department continues to make significant progress in each of the following six key strategic areas.

#### **1. Financial Systems Modernization**

- **Strategy:** HHS initiated FSIP with foundational projects that included a major core financial system upgrade and transition of key financial systems to a cloud service provider for hosting and application management. With those major initiatives successfully completed, HHS is now directing resources toward incrementally improving the efficiency and effectiveness of the modern financial systems environment. Taken together, the design of these projects will significantly mature the HHS financial systems environment, offering benefits that include: safeguarding system security and privacy; enhancing information access; complying with and implementing evolving federal requirements; achieving efficiencies and promoting standardization; eliminating security and control vulnerabilities; and maximizing the return on existing system investments.
- **Progress:** In FY 2019, the Department transitioned from the partially manual *Digital Accountability and Transparency Act of 2014* (DATA Act) solution, to a system-based reporting process. This significantly reduced the stakeholder data calls and manual crosswalks needed to produce DATA Act-compliant outputs, leveraging reports now available directly from the financial system. The solution links data across multiple enterprise-wide systems – improving enterprise-wide data quality and integration –





and enables HHS to continue to accurately report approximately \$330 billion in quarterly obligation award activity. Further, the HHS solution enables microservice-based automated integration with the Department of Treasury (Treasury) Broker – the first Broker integration of its kind in the federal government, which significantly improves the efficiency of reporting enterprise-wide data.

Additionally, HHS modernized key financial system infrastructure, generating a cost avoidance of over \$9.17 million, while enabling improved customer experience through enhanced system performance of up to 45-60 percent across key programs, minimized maintenance downtimes (increased system availability), and increased network bandwidth. Looking forward, the Department developed a comprehensive implementation strategy for a Department-wide electronic invoicing solution to drive efficiency through automation and standardization of current manual invoice processing. HHS developed a working group of over 170 members, spanning 6 accounting centers, 3 financial system owners, 11 acquisition offices, and the Treasury Invoice Processing Platform implementation team, to ensure the enterprise-wide solution adheres to the diverse HHS business needs.

## 2. Business Intelligence and Analytics

- **Strategy:** Leveraging the FBIS platform, HHS is expanding the use of business intelligence and analytics across the Department to establish an information-driven financial management environment in which stakeholders at all levels have access to timely and accurate information required for measuring performance, increasing transparency, and enhancing decision-making. This will allow the Department to more effectively meet evolving information demands for fiscal accountability, performance improvement, and external compliance requirements.
- **Progress:** Since first deployed in FY 2012, FBIS has provided operational and business intelligence to users across the HHS financial management community. FBIS offers accurate, consistent, near real-time data from UFMS and NBS (together serving 5 of 6 HHS Accounting Centers) and summary data from HIGLAS, supporting over 1,500 users across the Department. In FY 2019, HHS continued extending the FBIS solution, enhancing the Department's managerial reporting capabilities and facilitating improved stewardship and decision making. This included developing new, insight-driven FBIS reports and dashboards: (1) the Control Monitoring Dashboard was matured further to extend the FY 2017 UFMS security redesign and strengthen segregation of duties controls; and (2) Project Analytics dashboards and reports, including a Project Executive dashboard that offers a comprehensive organizational view, empowering executives by providing the visibility and control they need to monitor performance and project health. To better serve current users and promote the growth of FBIS, HHS spent significant effort in FY 2019 focusing on the FBIS customer experience. This included tailored training and workshops, as well as developing a Customer Strategy to better understand user behavior, business needs, and engagement opportunities. Based on user feedback, the initiation of a targeted performance improvement effort resulted in 50-90 percent performance improvement in report run times and a significant increase in FBIS user satisfaction.

## 3. Systems Policy, Security, and Controls

- **Strategy:** The reliability, availability, and security of HHS's financial systems are of paramount importance. HHS places a high priority on enhancing its financial systems security and controls environment, strengthening policy, proactively monitoring emerging issues, and ensuring progress toward remediating identified weaknesses. HHS continues to implement a comprehensive enterprise-wide financial systems policy, security, and controls program to mature the environment and to decrease risk.



- **Progress:** For the first time in 23 years of *Chief Financial Officers Act of 1990* (CFO Act) audits, in FY 2018 HHS no longer had a material weakness in its financial management systems, as a result of the Department's integrated strategy to mature its financial systems security and controls environment and remediate vulnerabilities. In downgrading the material weakness to a significant deficiency, the independent auditors specifically noted the "differential investments in key financial systems" provided a more mature controls baseline. Building on this significant progress, HHS continues to execute on its strategy to strengthen oversight, improve risk management, and enhance information and communication. Persistent weaknesses are being addressed, and targeted efforts are further reducing risk across the financial management systems portfolio as the annual closure rate of findings in high-risk control areas (access controls, configuration management, and segregation of duties) continues to increase year-over-year. Beyond simply tracking closure of individual weaknesses to assess progress, HHS also developed and has continued to refine a comprehensive management framework, including evaluation criteria and target measurements, to better inform HHS leadership and other stakeholders of overall progress made, the current maturity level of the security and control environment, and the associated level of risk. This framework provided HHS management with the evidence-based, objective data required to assert that the Department did not have a material weakness.

Encouraging collaboration and communication across the Department, the Financial Management Governance Board (FGB) chartered a cross-functional working group with representation from OpDiv CFO, Chief Information Officer (CIO), and Chief Information Security Officer Communities, that continues to meet monthly to address pervasive issues, recommend comprehensive remediation approaches, and monitor implementation progress. Additionally, in FY 2019 the Department hosted its second annual HHS IT Audit, Internal Control, and Risk Management workshop, which earned recognition from Department CIO and CFO leadership as a key forum for driving improved IT security and control maturity across the Department.

#### 4. Governance

- **Strategy:** The Department established the FGB as an executive-level forum to address enterprise-wide issues impacting HHS and its OpDivs, including those related to financial management policies and procedures, financial data, financial systems, and technology. The FGB's goals include, providing HHS financial management governance through formal structures, policies, and accountability; providing people, processes, and technology to support governance; and engaging stakeholders through effective communication and management strategies.
- **Progress:** The FGB convenes monthly to facilitate executive-level oversight of financial management-related areas by engaging senior leadership from the OpDivs and StaffDivs; as well as across functions such as finance, budget, acquisitions, grants, human resources, and IT. The FGB effectively transformed the way in which financial management initiatives and activities are accomplished in HHS, moving from a Division-specific, vertical focus to a more enterprise-wide approach, solving problems and implementing standards for financial management excellence.

Beyond improving collaboration and strengthening oversight across HHS's financial management and systems environment, the FGB serves as an advisory body, providing actionable recommendations to support project teams and guide future initiatives. Recent areas of focus have included key initiatives and federal mandates, such as the continued modernization of the Department's financial accounting systems, the implementation of the DATA Act long-term solution, and the HHS Consolidated





Acquisition Solution PRISM upgrade. The FGB anticipates focusing on key topics that will enable the HHS financial management community to effectively address evolving opportunities and challenges.

## 5. Program Management

- **Strategy:** HHS established Department-wide financial systems program management to support FSIP, FBIP, and enhance collaboration across project teams. Enterprise program management provides a sustaining framework that OpDivs, StaffDivs, and CFO community stakeholders across HHS can collaborate on programs and projects to realize strategic goals and outcomes. Enterprise program management provides leadership support by developing and maintaining processes, standards, tools, and best practices for program and project management. This includes the Financial Systems Consortium, a body of federal project managers and contractors representing the three core financial systems: UFMS, HIGLAS, and NBS. The Consortium is designed to leverage and share work products to lower costs, reduce development timelines, and minimize purchasing similar work for related programs and projects. The forum also provides an opportunity to introduce new tools, technologies, and industry best practices that may benefit HHS's financial management systems environment.
- **Progress:** Department-wide program management and the Financial Systems Consortium continues to play a critical role in support of major system enhancements. In FY 2019, enhancements included developing a framework (Strategic Template and Resources Tools) for enterprise-wide projects that aligns with HHS's Enterprise Performance Life Cycle process and assists project managers in identifying necessary deliverables for successful implementation. As the Department's business needs evolve, the Enterprise Program Management Office continues to mature and support ongoing collaboration and coordination across the financial systems environment and modernization initiatives.

## 6. Sharing Opportunities

- **Strategy:** As a key FSIP component, HHS is actively pursuing multiple initiatives to generate efficiencies and improve effectiveness by implementing shared solutions. The Department has an established framework to continuously identify sharing opportunities in its financial systems environment.
- **Progress:** Examples of sharing opportunities pursued to-date include, transitioning key financial systems to a cloud service provider, the use of shared acquisition contracts and streamlining of system operations and maintenance contracts, the implementation of a Department-wide Accounting Treatment Manual, consolidation of three legacy managerial reporting systems into FBIS, and sharing solutions across the HHS financial community. Currently, the HHS finance, acquisition, and IT communities are collaboratively implementing the Department-wide solution for electronic invoicing, as well as developing and refining an implementation plan for the U.S. Department of the Treasury's Government Invoicing solution. Implementation of these solutions will support specific business needs identified across HHS while maintaining compliance with the Office of Management and Budget (OMB) direction and Treasury requirements. The FGB continues to assess future sharing opportunities across the enterprise to further align with financial management and system policies, business processes and operations, and the overall financial system vision and architecture.



## Legal Compliance

### ***Antideficiency Act***

The *Antideficiency Act* (ADA) prohibits federal employees from obligating in excess of an appropriation, or before funds are available, or from accepting voluntary services. As required by the ADA, HHS notifies all appropriate authorities of any ADA violations. ADA reports can be found on [U.S. Government Accountability Office \(GAO\) - ADA](#).

HHS management is taking necessary steps to prevent violations. On August 1, 2016, the Director of OMB approved HHS's updated Administrative Control of Funds policy, as required by United States Code, Title 31, *Money and Finance*, Section 1514, "Administrative Division of Apportionments." This policy provides HHS's guidelines for budget execution that specifies basic fund control principles and concepts, including the administrative control of all funds for HHS and its OpDivs, StaffDivs, and Accounting Centers. With respect to three potential issues, HHS is working through investigations and further assessment where necessary. HHS remains fully committed to resolving these matters appropriately and complying with all aspects of the law.

### ***Improper Payments Information Act of 2002, Improper Payments Elimination and Recovery Act of 2010, and Improper Payments Elimination and Recovery Improvement Act of 2012***

An improper payment occurs when a payment should not have been made, federal funds go to the wrong recipient, the recipient receives an incorrect amount of funds, or the recipient uses the funds in an improper manner. In addition, improper payments cited do not necessarily represent expenses that should not have occurred. Instances where there is no or insufficient documentation to support the payment as proper or improper are cited as improper payments. The *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), requires federal agencies to review their programs and activities to identify programs that may be susceptible to significant improper payments, and for high risk programs, to estimate the amount of improper payments and develop and implement corrective actions. HHS works to better prevent, detect, and reduce improper payments through close review of our programs and activities using sound risk models, statistical estimates, and internal controls.

HHS has shown tremendous leadership in the improper payments arena. HHS has a robust improper payments estimation and reporting process that has been in place for many years and has taken many corrective actions to prevent, detect, and reduce improper payments in our programs. In compliance with the IPIA, as amended, HHS completed 31 improper payment risk assessments in FY 2019 (representing risk assessments of programs and charge cards) and determined that these programs were not susceptible to significant improper payments. In addition, HHS is publishing improper payment estimates and associated information for seven high risk programs in this year's AFR, of which four programs reported lower improper payment rates in FY 2019 compared to FY 2018. Lastly, HHS also utilizes the Do Not Pay portal to check payments and awardees to identify potential improper payments or ineligible recipients. In FY 2019, HHS screened more than \$493.4 billion in Treasury-disbursed payments through the Do Not Pay portal. A detailed report of HHS's improper payment activities and performance is presented in the "Other Information" section of this AFR, under "Payment Integrity Report."



***Patient Protection and Affordable Care Act***

The *Patient Protection and Affordable Care Act* (PPACA) established Health Insurance Exchanges through which qualified individuals and qualified employers can purchase health insurance coverage. Many individuals who enroll in Qualified Health Plans through individual market Health Insurance Exchanges are eligible to receive a premium tax credit to reduce their costs for health insurance premiums. Premium tax credits can be paid in advance directly to the consumer's Qualified Health Plan insurer. Consumers then claim the premium tax credit on their federal tax returns, reconciling the credit allowed with any advance payments made throughout the tax year. HHS coordinates closely with the Internal Revenue Service on this process.

PPACA also included provisions that address fraud and abuse in health care by toughening the sentences for perpetrators of fraud, employing enhanced screening procedures, and enhancing the monitoring of providers. These authorities have facilitated the government's efforts to reduce improper payments. For detailed information on improper payment efforts, see the "Other Information" section of this AFR, under "Payment Integrity Report."

***Digital Accountability and Transparency Act of 2014***

The *Digital Accountability and Transparency Act of 2014* (DATA Act) expanded the *Federal Funding Accountability and Transparency Act of 2006* (FFATA) to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directed the federal government to use government-wide data standards for developing and publishing reports, and to make more information, including award-related data, available on [USAspending.gov](https://www.usaspending.gov). Among other goals, the DATA Act aimed to improve the quality of the information on [USAspending.gov](https://www.usaspending.gov), as verified through regular reviews of posted data, and to streamline and simplify reporting requirements through clear data standards.

The DATA Act requires agencies to generate data from their financial accounting systems using common field, format, and definitions for financial and award data in accordance with the DATA Act Information Model Schema. Treasury collects procurement, financial assistance, and recipient award data from government-wide databases reported under other FFATA requirements and merges it with the financial data produced from the HHS financial system. On a quarterly basis, agencies must certify the accuracy, completeness, and timeliness of the data considered reportable under these standards. HHS is responsible for ensuring the linkage between these sets of internally-maintained and externally-managed data is valid and reliable.

Since May 2017, HHS has successfully submitted financial and award-level data for quarterly certification to Treasury's DATA Act Broker. The processes in place at the Department have successfully ensured alignment between the internally maintained records and the external data in all submissions since the initial one. HHS submissions average over \$300 billion in award-level obligations per quarter. HHS completely reconciles to an average of 98 percent of award-level obligations. HHS has undergone both GAO and OIG audits of their DATA Act submission since the initial reporting window, yielding a zero percent error rate on sampled records through FY 2018.

In June of 2018, the revised Appendix A to OMB Circular A-123 contained a cover letter adding a requirement for agencies to develop and execute a Data Quality Plan. Consideration of this plan must be included in agencies' existing annual assurance statement for internal controls over reporting beginning in FY 2019 and continuing through the assurance statement covering FY 2021, at a minimum, or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act. HHS's Data Quality Plan was finalized on October 1, 2018.





### ***Federal Information Technology Acquisition Reform Act***

The *Federal Information Technology Acquisition Reform Act* (FITARA), enacted on December 19, 2014, established an enterprise-wide approach to federal IT investments and provided the CIO of CFO Act agencies with greater authority over IT investments, including authoritative oversight of IT budgets, budget execution, and IT-related personnel practices and decisions. In FY 2019, HHS continued its “M3” improvement initiative to strengthen performance on the agency’s biannual Committee on Oversight and Government Reform scorecard. For example, HHS emphasized *Federal Information Security Management Act* and cybersecurity throughout FY 2019, understanding that these elements would impact agency scores on the revised Biannual Scorecard 8.0. To that end, the Office of the CIO focused on implementing modern tools and capabilities that enhance HHS’s cybersecurity posture while lowering risk exposure.

On June 26, 2019, the Committee on Oversight and Government Reform released its Biannual Scorecard 8.0. HHS’s overall grade on this new Scorecard decreased from the previous version, attributed mainly to the CIO’s reporting structure. We are working with our regulators to address this challenge and expect improvements on future Scorecards. It is notable that HHS maintained the four “A’s” previously received under FITARA 7.0, and under FITARA 8.0, HHS also identified additional IT portfolio cost savings and adopted an incremental delivery approach for 97 percent of its projects. HHS’s ability to adopt new processes that align with FITARA is a testament to how HHS has matured, monitored, and maintained through its “M3” initiative.

### ***Grants Oversight and New Efficiency Act***

The *Grants Oversight and New Efficiency Act* (GONE Act) was signed into law on January 28, 2016 with the goal to facilitate the closing of expired grants and cooperative agreements, and to improve government efficiency. The GONE Act requires federal agencies to submit to Congress a report for all grants and cooperative agreements expired for 2 or more years and their attributed dollar balances, which have not been closed out. Agencies were also required to explain, for the 30 oldest federal grant awards, why each grant had not been closed out.

In 2019, HHS submitted an updated report for all grants and cooperative agreements reported in the FY 2017 GONE Act submission identifying whether each remained open or had been closed. In addition, HHS also provided an update on the 30 oldest federal grants.

Although GONE Act reporting requirements are complete, HHS continues to prioritize long-standing management challenges specifically related to closeout. Under the direction of the Deputy Secretary, the Department established an Executive Steering Committee comprised of senior executives to provide guidance and approval to take one-time actions to reduce the backlog and conduct business process re-engineering.

In August 2018, the Department established the Grants Closeout Remediation Integrated Project Team (IPT) with the specific purpose of reducing the current backlog of open but expired documents. The IPT, comprised of subject-matter experts across the Department, defined and analyzed the population of open grants and associated closeout risks. As of September 30, 2019, the team successfully closed approximately 14,000 documents.

In March 2019, the Department established the Business Process Re-engineering IPT, comprised of grants policy and operations experts across the Department, to develop recommendations to improve business processes and prevent future backlogs.





### ***Fraud Reduction and Data Analytics Act of 2015***

The Department continues to engage in various fraud reduction efforts, including activities to meet the requirements under the *Fraud Reduction and Data Analytics Act of 2015* (FRDAA). Since FRDAA's enactment in 2016, HHS has participated in the required OMB-led interagency working group. As part of this working group, in FY 2019 HHS assisted in developing a fraud taxonomy that agencies can use to identify potential fraud vulnerabilities. Also in FY 2019, HHS attended the Improper Payment and Fraud Prevention International Forum with the United Kingdom and Canada and participated in other interagency discussions around fraud risk management. These meetings shared lessons learned and discussed future opportunities for sharing best practices, knowledge, and experience to assist agencies in identifying and preventing fraud. In addition, HHS collaborated with Treasury on the implementation of the Program Integrity Antifraud Playbook (Playbook), including attending interagency meetings and discussions, and providing Treasury with information on HHS's program integrity and analytic efforts. The Playbook, released in October 2018, includes many resources for agencies to consider in developing antifraud initiatives. HHS will continue working with OMB and other agencies to implement FRDAA and to further advance fraud risk management activities.

HHS continues to take steps, at both the Department and OpDiv/StaffDiv levels, to implement FRDAA, and to adopt leading practices in fraud risk management, as presented in GAO's *Fraud Risk Management Framework and Selected Leading Practices* published in July 2015. Select fraud risk management activities at the Department are below:

- HHS is drafting a Fraud Risk Management Implementation Plan that outlines actions taken or planned to enhance financial and administrative controls relating to fraud. HHS expects to complete this implementation plan in FY 2020;
- HHS is considering fraud and financial management risk as part of its internal control assessments and in accordance with the law and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*;
- HHS is considering fraud risk in individual programs or payment activities as part of its improper payment risk assessments, and HHS is analyzing the FY 2018 and FY 2019 data; and
- HHS continually reviews and updates its financial policies and provides relevant and timely training sessions. For example, in FY 2019, HHS held a grants training conference for OpDiv/StaffDiv representatives that included a joint HHS and OIG session on fraud-related observations, and fraud indicators that lead to a suspension and debarment.

HHS OpDivs and StaffDivs generally manage fraud risk within other scopes of responsibility (e.g., yearly internal control reviews and audits; reviews of allegations involving misuse of grant or contractor funds, conflicts of interest, or other misconduct or misuse cases; continuous monitoring of grant recipients [audit resolution, special conditions/drawdown restrictions, site visits, performance reports, etc.]; the use of [SAM.gov](https://www.sam.gov) [e.g., Suspension and Debarment]); and other activities. Some specific efforts at two Divisions are described below:

- NIH assessed the extramural grant program in FY 2019 following the GAO Fraud Risk Framework. The fraud risk assessment helped NIH identify vulnerabilities and develop mitigation strategies to proactively help reduce the risk of fraud in NIH extramural programs. In response to the fraud risk assessment, NIH launched an online Fraud Awareness Training course. This course is available to all NIH personnel via the HHS Learning Management System. This course provides NIH staff with a definition of fraud, circumstances that lead to fraud, common examples of fraud, and how to report suspected fraud. This training raises NIH's fraud awareness by familiarizing employees with the types of fraud that potentially impact NIH operations. The training contributes to NIH's organizational culture of accountability by ensuring alertness and stewardship practices for public funds by NIH personnel.



- CMS utilizes a centralized, vulnerability management process to identify, prioritize, track, and mitigate vulnerabilities that affect the integrity of federal health programs. The centralized component of this process, known as the Vulnerability Collaboration Council (VCC), is comprised of CMS leadership and subject matter experts that work collaboratively to identify vulnerabilities that lead to fraud, waste, and abuse, and develop comprehensive risk strategies to mitigate these vulnerabilities. HHS aligned the VCC's risk-based approach with GAO's Fraud Risk Framework. By aligning with the GAO framework, CMS standardized the vulnerability management process by focusing on the identification and mitigation of key risk factors through the development of measurable, verifiable, and time-bound action plans.

### ***Federal Managers' Financial Integrity Act of 1982 and Federal Financial Management Improvement Act of 1996***

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires federal agencies to annually evaluate and assert the effectiveness and efficiency of their internal control and financial management systems. Agency heads must annually provide a statement of reasonable assurance that the agency's internal controls are achieving their intended objectives and the agency's financial management systems conform to government-wide requirements. Section 2 of FMFIA outlines compliance with internal control requirements, while Section 4 dictates conformance with systems requirements. Additionally, agencies must report any identified material weaknesses and provide a plan and schedule for correcting the weaknesses.

In September 2014, GAO released an updated edition of its *Standards for Internal Control in the Federal Government*, effective FY 2016. The document takes a principles-based approach to internal control, with a balanced focus over operations, reporting, and compliance. In July 2016, OMB released revised Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The revised Circular complements GAO's Standards, and it implements requirements of the FMFIA with the intent to improve accountability in federal programs and increase federal agencies' consideration of Enterprise Risk Management. The Department, with its OpDiv and StaffDiv stakeholders, are working together to implement these requirements.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires federal agency heads to assess the conformance of their financial management information systems to mandated requirements. FFMIA expanded upon FMFIA by requiring that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. Guidance for determining compliance with FFMIA is provided in OMB Circular A-123, Appendix D, *Compliance with the FFMIA of 1996*.

HHS is fully focused on the requirements of FMFIA and FFMIA through its internal control program and a Department-wide approach to Enterprise Risk Management. Based on thorough ongoing internal assessments and FY 2019 audit findings, HHS provides reasonable assurance that controls are operating effectively. We are actively engaged with our OpDivs to correct their identified material weaknesses and noncompliances through a corrective action process focused on addressing the true root cause of deficiencies and supported by active management oversight. More information on the Department's internal control efforts and the HHS Statement of Assurance follows.





## Internal Control

FMFIA requires agency heads to annually evaluate and report on the internal control and financial systems that protect the integrity of federal programs. This evaluation aims to provide reasonable assurance that internal controls are achieving the objectives of effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations. The safeguarding of assets is a subset of these objectives. HHS performs rigorous, risk-based evaluations of its internal controls in compliance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. HHS is also continuing to make progress toward adopting Enterprise Risk Management and integrating with Internal Control.

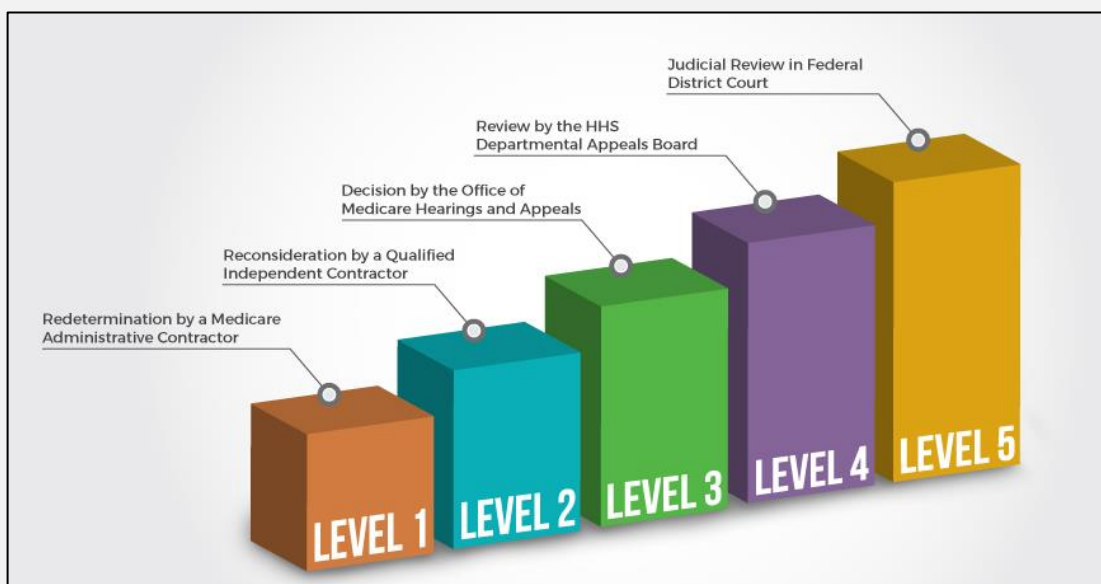
HHS management is directly responsible for establishing and maintaining effective internal controls in their respective areas of responsibility. As part of this responsibility, management regularly evaluates internal control and HHS executive leadership provides annual assurance statements reporting on the effectiveness of controls at meeting objectives. The HHS Risk Management and Financial Oversight Board evaluates OpDivs' management assurances and recommends a Department assurance for the Secretary's consideration and approval, resulting in the Secretary's annual Statement of Assurance.

HHS aims to strengthen its internal control assessment and reporting process to more effectively identify key risks, develop effective risk responses, and implement timely corrective actions. The HHS FY 2019 OMB Circular A-123 assessment recognizes material noncompliances with: the *Improper Payments Information Act* (IPIA), with two instances related to Error Rate Measurement; the *Social Security Act* related to the Medicare appeals process; and the Federal Acquisition Regulation related to contracting for services. Based on the results of this assessment, HHS provides reasonable assurance that its overall financial management systems substantially comply with the FFMA.

Maintaining integrity and accountability in all programs and operations is critical to HHS's mission and demonstrates responsible stewardship over assets and resources. It also promotes responsible leadership, ensures the effective delivery of high-quality services to the American people, and maximizes desired program outcomes.

### Did you know?

There are five levels in the Medicare Part A and Part B appeals process. The levels are:



For more information on the Medicare Appeals process, refer to [CMS.gov](https://www.cms.gov).



## Management Assurances

### Statement of Assurance



**THE SECRETARY OF HEALTH AND HUMAN SERVICES**  
WASHINGTON, D.C. 20201

The Department of Health and Human Services' (HHS or the Department) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). These objectives are to ensure (1) effective and efficient operations; (2) reliable reporting; and (3) compliance with applicable laws and regulations. The safeguarding of assets is a subset of these objectives.

HHS conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department provides reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2019, with the exception of material noncompliances with: the *Improper Payments Information Act* (IPIA), with two instances related to Error Rate Measurement; the *Social Security Act* related to the Medicare appeals process; and the *Federal Acquisition Regulation* related to contracting for services.

HHS is taking steps to address the material noncompliance related to the Medicare appeals process and Federal Acquisition Regulation, as described in the "Corrective Action Plans" section. Remediation for one instance of material noncompliance related to Error Rate Measurement relies on a modification to legislation requiring states to participate in an improper payment rate measurement. HHS is addressing the other instance of material noncompliance related to Error Rate Measurement, as described in the "Corrective Action Plans" section.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that substantially comply with federal financial management system requirements, federal accounting standards, and the United States Standard General Ledger at the transaction level. HHS conducted its evaluation of financial management systems for compliance with FFMIA in accordance with OMB Circular A-123, Appendix D. Based on the results of this assessment, HHS provides reasonable assurance that its overall financial management systems substantially comply with the FFMIA and substantially conform to the objectives of FMFIA, Section 4.

HHS will continue to ensure accountability and transparency over the management of taxpayer dollars, and strive for the continuing progress and enhancement of its internal control and financial management programs.

/Alex M. Azar II/

Alex M. Azar II  
Secretary  
November 13, 2019





## Summary

### 1. Error Rate Measurement

HHS identified two instances of material noncompliance with IPIA: (1) not reporting a Temporary Assistance for Needy Families (TANF) improper payment rate, and (2) reporting improper payment rates for Medicaid and Children's Health Insurance Program (CHIP) via the Payment Error Rate Measurement (PERM) program that are above the IPIA requirements.

HHS identified the TANF process limitation in a prior year and it continues to exist in FY 2019. The TANF program is unable to report an error rate for FY 2019 due to statutory limitations precluding HHS from requiring states to participate in a TANF improper payment measurement.

The improper payment rates for Medicaid and CHIP are based on reviews of the Fee-For-Service, managed care, and eligibility components. The PERM program uses a 17-state rotational approach to measure the 50 states and the District of Columbia over a 3-year period. As a result, HHS measures each state once every 3 years. National improper payment rates include findings from the most recent three cycle measurements. Each time a cycle of states is measured, HHS removes the previous findings for that cycle and includes the newest findings. Factors that led to noncompliance in FY 2019 include:

- The reintegration of the PERM eligibility component for the first cycle of 17 states;
- Improper payments due to insufficient documentation to verify eligibility, related primarily to income or resource verification for (1) situations where the required verification was not done, (2) where there is an indication the verification was initiated but there was no documentation to validate the verification process was completed, and (3) noncompliance with eligibility redetermination requirements;
- Noncompliance with requirements for provider revalidation of enrollment and rescreening;
- Noncompliance with provider enrollment, screening, and National Provider Identifier requirements; and
- The CHIP improper payment rate was also driven by claims where the beneficiary was incorrectly determined to be eligible for CHIP, but upon review was eligible for Medicaid.

### 2. Medicare Appeals Process

Several factors, including the growth in Medicare claims – partially driven by the aging population – and HHS's continued investment and focus on ensuring program integrity, have led to more appeals than Levels 3 and 4 of the Medicare appeals process can adjudicate within contemplated time frames.

From FY 2010 through FY 2019, the HHS Office of Medicare Hearings and Appeals (OMHA) and the HHS Departmental Appeals Board (DAB) experienced a large increase in the number of Medicare related appeals received. As a result, at the end of Quarter 3 of FY 2019, 318,254 appeals were waiting to be adjudicated by OMHA and 17,719 appeals were waiting to be reviewed at the DAB. This has led to the inability to meet statutory decisional timeframes of 90 days at Levels 3 and 4 of the Medicare appeals process.

Under current resources and continuing ongoing administrative actions (and without any additional appeals), it would take 2 years for OMHA and 8 years for the DAB to process their respective backlogs.

### 3. Contracting

HHS has identified (1) several known and potential violations of laws and regulations related to its acquisition processes at both the Department and Operating Division Levels, and (2) related internal control vulnerabilities. Management identified several noncompliance issues related to the Federal Acquisition Regulation (FAR) and began a broader review of acquisition compliance.





## Corrective Action Plans

### 1. Error Rate Measurement

Since TANF is a state-administered program, corrective actions to reduce improper payments would be implemented at the state level. Since HHS cannot require states to participate in a TANF improper payment measurement, the Department is also unable to compel states to collect the required information to implement and report on corrective actions. Despite these limitations, HHS uses a multi-faceted approach to support states in improving TANF program integrity and preventing improper payments, including efforts such as: conducting and using results of a detailed risk assessment to mitigate payment risks at the federal level; promoting and supporting innovation using TANF data to better understand how states ensure program integrity; and monitoring compliance with the final regulations regarding “State Reporting on Policies and Practices to Prevent the Use of TANF Funds in Electronic Benefit Transfer Transactions in Specified Locations” (81 Federal Register 2092, January 15, 2016). In addition, the FY 2020 President’s Budget includes a legislative proposal that would give HHS the authority to collect quantitative and qualitative program integrity information from TANF programs, which will lay the groundwork for the data collection efforts needed to provide information on states’ improper payments.

To address Medicaid and CHIP PERM related errors, HHS is developing a notice of proposed rulemaking (NPRM) to introduce more stringent requirements designed to strengthen the integrity of the eligibility determination process and avoid improper payments. The proposed rule will address several of the most persistent drivers of eligibility errors such as insufficient recordkeeping, verification of eligibility, redeterminations, and compliance with eligibility requirements when individuals experience a change in circumstances that may impact eligibility. The Center for Medicaid and CHIP Services (CMCS) within HHS’s Centers for Medicare & Medicaid Services (CMS) also is publishing an Information Bulletin to remind states about federal requirements and expectations already codified in existing regulations for completing renewals for Medicaid and CHIP beneficiaries. HHS will also complete the review of the remaining 34 states under the new eligibility component and establish a baseline in FY 2021 once all states are measured under the new requirements.

In addition to the NPRM, to further address PERM errors that may be related to a need for states to implement or increase operational process efficiencies, CMCS will use learning collaboratives and targeted technical assistance to identify root cause analysis for states with chronic processing issues to develop best practices that can be shared. In summary, HHS will:

- Develop a notice of proposed rulemaking to strengthen the integrity of the eligibility determination process;
- Increase the timeline density of oversight by using the Medicaid Eligibility Quality Control (MEQC) program in the two off-cycle PERM years to address Medicaid beneficiary eligibility vulnerabilities on areas not addressed through PERM reviews and on areas identified as error-prone through the PERM program;
- Conduct risk based audits of beneficiary eligibility determinations in states identified as such in PERM, OIG, and state auditor findings;
- Conduct outreach during off-cycle PERM years to address issues identified in corrective action plans; and
- Facilitate national best practice calls to share ideas across states to increase support in areas where deficiencies may be due to operational inefficiencies.

In addition, HHS works closely with all states through enhanced technical assistance and guidance to develop state-specific corrective action plans to reduce improper payments. All states are responsible for implementing, monitoring, and evaluating their corrective action plan’s effectiveness with assistance and oversight from HHS. When developing corrective action plans, states focus on the major causes of improper payments.





Lastly, the FY 2020 President's Budget also includes a proposal that would strengthen CMS's ability to recoup Medicaid improper payments related to states' inaccurate beneficiary eligibility determinations. The proposal would give CMS authority to recover overpayments from states that receive federal resources for ineligible or misclassified beneficiaries.

## **2. Medicare Appeals Process**

HHS has a strategy to improve the Medicare appeals process through investing new resources at all levels of appeal to increase adjudication capacity and implement new strategies to alleviate the current backlog; taking administrative actions to reduce the number of pending appeals and encourage resolution of cases earlier in the process; and proposing legislative reforms that provide additional funding and new authorities to address the appeals volume.

HHS has undertaken, and continues to explore, new administrative actions expected to have a favorable impact on the Medicare appeals backlog. The FY 2020 President's Budget request includes a comprehensive legislative package aimed at both helping the Department process a greater number of appeals and reducing the number of appeals that reach OMHA and DAB. Based on projected impacts of current administrative actions, and the proposed funding increases and legislative actions outlined in the FY 2020 President's Budget, HHS projects that the backlog at Level 3 would be approximately 100,000 appeals by the end of FY 2021, while the backlog at Level 4 could start decreasing in future years.

## **3. Contracting**

HHS places a high priority on complying with appropriations and acquisitions law, and avoiding violations of the FAR. When a violation is suspected, HHS obtains legal review and advice from the Office of the General Counsel before determining whether a violation exists. HHS management has taken certain corrective actions in FY 2019, including a reorganization of the HHS Acquisitions office resulting in a separate Office of Acquisitions with independent executive oversight, and a review of its policies and procedures against current federal government regulations. HHS is still in the process of reviewing its acquisition program. The review of this matter will continue in FY 2020 to ensure timely corrective actions, as appropriate.

## Financial Summary and Highlights

HHS received an unmodified audit opinion on the principal financial statements and notes<sup>2</sup> for the year ended September 30, 2019. This is the 21<sup>st</sup> year for an unmodified opinion. HHS takes pride in the preparation of the financial statements, yet it can sometimes be difficult to draw the relationships between the information in the statements and the overall performance of an agency. This section is presented as an interpretation of the principal financial statements, which include the Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, Statement of Social Insurance, and the Statement of Changes in Social Insurance Amounts, as well as selected notes to the principal financial statements. HHS presents these in the “Financial Section” of this report. Included in this analysis is a year-over-year summary of key financial balances, nature of significant changes, and highlights of key financial events to assist readers in establishing the relevance of the financial statements to the operations of HHS.

As a federal entity, HHS’s financial position and activities are significant to the government-wide statements. Based on the *FY 2018 Financial Report of the United States Government*, HHS’s net operating cost was larger than any single agency across the entire federal government.<sup>3</sup> A similar relationship exists within HHS, where the Department is significantly represented by one OpDiv, CMS. CMS alone consistently stewards the largest share of HHS’s resources. Therefore, noteworthy changes in HHS balances are primarily related to fluctuations in CMS program activity.

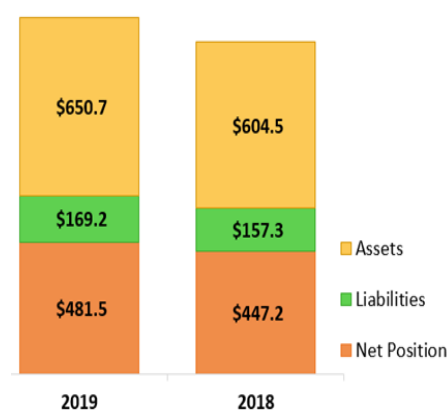
### Balance Sheets

To communicate performance for HHS at fiscal year-end, the Consolidated Balance Sheets show the resources available to HHS (Assets) and claims against those assets (Liabilities). The remainder represents the equity retained by HHS (Net Position). The table below summarizes the major components of the FY 2019 and FY 2018 year-end balances of HHS’s assets available for use, the liabilities owed by HHS, and the equity retained by HHS.

#### Financial Conditions Summary

(In Billions)

	2019	2018	\$ Change (2019-2018)	% Change (2019-2018)
Fund Balance with Treasury	\$ 296.3	\$ 250.2	\$ 46.1	18%
Investments, Net	309.3	307.1	2.2	1%
Accounts Receivable	25.0	27.9	(2.9)	(10)%
Advances	2.6	2.9	(0.3)	(10)%
Other Assets	17.5	16.4	1.1	7%
<b>Total Assets</b>	<b>\$ 650.7</b>	<b>\$ 604.5</b>	<b>\$ 46.2</b>	<b>8%</b>
Accounts Payable	\$ 2.4	\$ 2.0	\$ 0.4	20%
Entitlement Benefits Due and Payable	110.1	99.1	11.0	11%
Accrued Liabilities	15.5	14.5	1.0	7%
Federal Employee and Veterans' Benefits	14.8	14.4	0.4	3%
Other Liabilities	26.4	27.3	(0.9)	(3)%
<b>Total Liabilities</b>	<b>\$ 169.2</b>	<b>\$ 157.3</b>	<b>\$ 11.9</b>	<b>8%</b>
<b>Net Position</b>	<b>\$ 481.5</b>	<b>\$ 447.2</b>	<b>\$ 34.3</b>	<b>8%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 650.7</b>	<b>\$ 604.5</b>	<b>\$ 46.2</b>	<b>8%</b>



<sup>2</sup> Due to the uncertainty of the long-range assumptions used in the Statement of Social Insurance model, the auditors were not able to express an opinion on the Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and associated footnotes.

<sup>3</sup> HHS’s net cost is 25 percent of the federal government’s total costs, Social Security Administration’s net cost is 23 percent, Department of Defense’s net cost is 15 percent, Department of Veterans Affairs’ net cost is 8 percent, and Treasury’s Interest on Treasury Security Held by the Public’s net cost is 8 percent. All remaining agencies combined only represent 21 percent. Source: *FY 2018 Financial Report of the United States Government* [fiscal.treasury.gov/fsreports/rpt/finrep/fr/fr\\_index.html](https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/fr_index.html)



## Assets

The total Assets for HHS were \$650.7 billion at year-end, representing the value of what HHS owns and manages. This is an increase of approximately \$46.2 billion or 8 percent over September 30, 2018. Fund Balance with Treasury (FBWT) and Investments comprise \$605.6 billion or 93 percent of HHS's total assets, which increased \$48.3 billion or 9 percent.

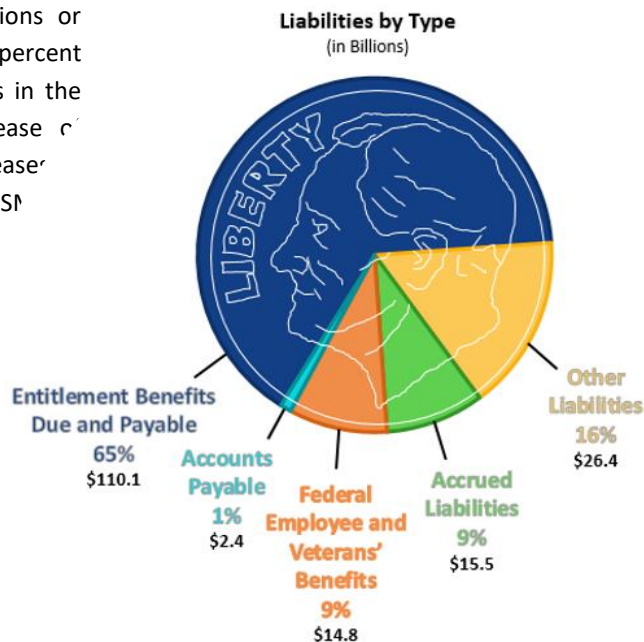
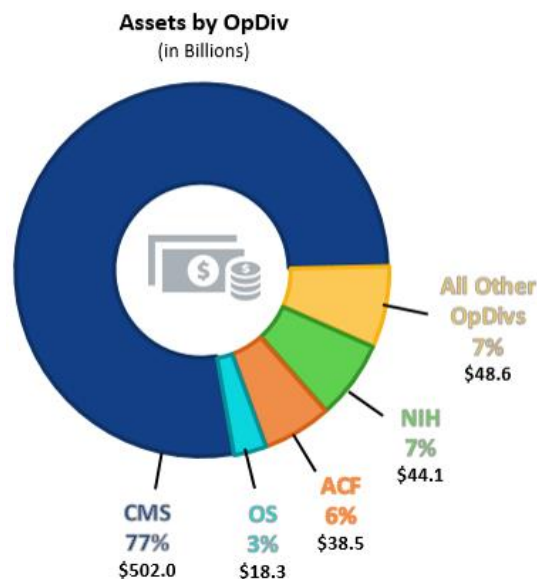
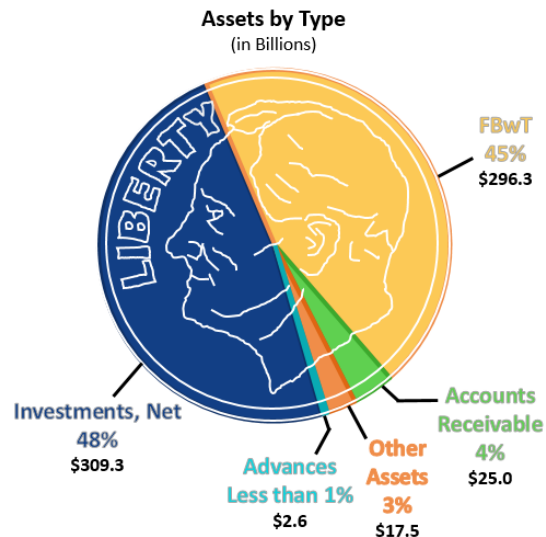
The FBWT line contains the largest net change between FY 2019 and FY 2018 with a \$46.1 billion or 18 percent increase. This primarily consists of a \$36.3 billion increase in Supplementary Medical Insurance (SMI), \$2.0 billion in Medicaid due to retention of full FY 2019 definite authority, \$2.5 billion in the Refugee and Entrant Assistance program, and \$1.2 billion for the Temporary Assistance for Needy Families program.

Investments had an increase of \$2.2 billion or 1 percent primarily due to an increase of \$6.5 billion in SMI premiums, offset by a decrease of \$4.4 billion in Hospital Insurance (HI).

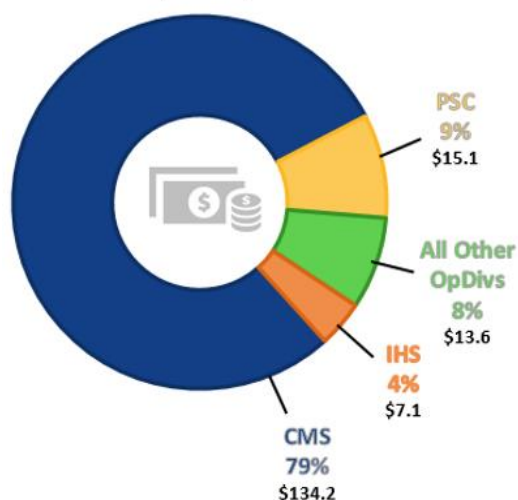
The HHS "Assets by OpDiv" chart demonstrates asset distribution within HHS, excluding eliminations. The OpDiv asset balances ranged from \$355 million at AHRQ (shown in All Other OpDivs) to \$502.0 billion at CMS. CMS had the largest percentage and dollar value asset increases at \$34.7 billion or 7 percent over FY 2018 primarily due to the changes in FBWT and Investments mentioned above.

## Liabilities

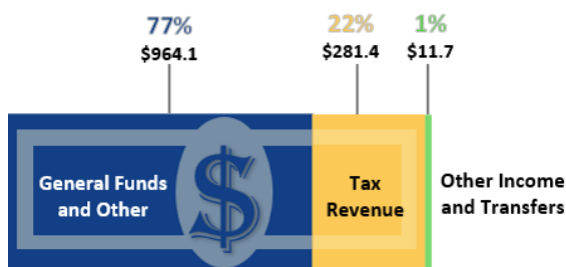
The total Liabilities for HHS were \$169.2 billion at year-end, representing the amounts HHS owes from past transactions or events. This is an increase of approximately \$11.9 billion or 8 percent over September 30, 2018. The majority of the increase is in the Entitlement Benefits Due and Payable line. This increase of \$11.0 billion or 11 percent from FY 2018 consists of increased medical services/claims incurred but not reported for SMI of \$6.5 billion, \$2.9 billion in HI, and \$1.6 billion in Medicaid.



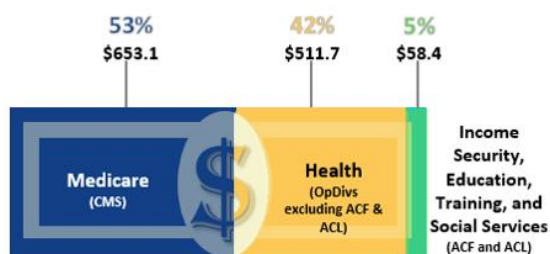
**Liabilities by OpDiv**  
(in Billions)



**HHS Gets the Money From...**  
(in Billions)



**HHS Used the Money For...**  
(in Billions)



The HHS “Liabilities by OpDiv” chart shows liability distribution within HHS, excluding eliminations. The OpDivs with the largest and smallest asset balances are also the OpDivs with the largest and smallest liabilities. With the majority share, CMS reports \$134.2 billion or 79 percent of the HHS liabilities, while AHRQ (shown in All Other OpDivs) has liabilities of \$29 million. CMS had the largest OpDiv dollar value increase in liabilities over FY 2018 of \$10.7 billion.

## Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position displays the activities affecting the difference between the beginning net position and ending net position, as shown on the HHS Consolidated Balance Sheets. This is also represented as the difference between assets and liabilities.

Changes in assets are shown by identifying where HHS gets the money from, known as financing sources. Financing sources include both the Total Financing Sources and Total Budgetary Sources lines from the Statement of Changes in Net Position.

HHS receives the majority of the funding through Congressional appropriations and reimbursement for the provision of goods or services to other federal agencies. HHS’s largest financing source, General Funds and Other, increased since FY 2018 by \$53.9 billion or 6 percent. The fluctuations in tax revenue of \$16.9 billion or 6 percent is related to the *Federal Insurance Contributions Act* (FICA) and *Self Employed Contributions Act* (SECA).

## Statements of Net Cost

The Consolidated Statements of Net Cost represents how HHS spent the money. This can also be stated as the difference between the costs incurred by HHS’s programs less associated revenues. The Net Cost of Operations for the year ended September 30, 2019, totaled approximately \$1.2 trillion. The “HHS Used the Money For ...” chart shows consolidating costs by major budget function<sup>4</sup>, which are the categories displayed in the [Federal Budget](#). Most agencies have one or two budget functions, where HHS has many.

<sup>4</sup> Totals in the chart are exclusive of Intra-HHS eliminations from the Consolidating Statement of Net Cost by Budget Function. This statement can be found in Section III, Other Information.





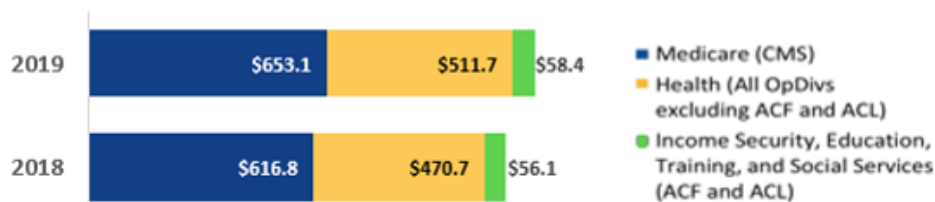
The table below presents FY 2019 Consolidated Net Cost of Operations, which breaks costs into Responsibility Segments between CMS and the remaining OpDivs in Other Segments. Net cost for CMS increased by \$78.0 billion or 8 percent over FY 2018. The majority of this increase relates to Medicaid benefit expenses of \$27.5 billion. In addition, SMI and HI expenses increased by \$26.6 billion and \$16.1 billion, respectively. There was an increase in total Net Cost of Operations for the remaining HHS segments at \$1.5 billion or 1 percent over FY 2018.

**Net Cost of Operations**  
(in Billions)

	2019	2018	\$ Change (2019 2018)	% Change (2019 2018)
<b>Responsibility Segments:</b>				
CMS Gross Cost	\$ 1,201.6	\$ 1,115.2	\$ 86.4	8%
CMS Exchange Revenue	(114.7)	(106.3)	(8.4)	8%
CMS Net Cost of Operations	\$ 1,086.9	\$ 1,008.9	\$ 78.0	8%
<b>Other Segments:</b>				
Other Segments Gross Cost	\$ 141.9	\$ 140.2	\$ 1.7	1%
Other Segments Exchange Revenue	(6.0)	(5.8)	(0.2)	3%
Other Segments Net Cost of Operations	\$ 135.9	\$ 134.4	\$ 1.5	1%
<b>Net Cost of Operations</b>	<b>\$ 1,222.8</b>	<b>\$ 1,143.3</b>	<b>\$ 79.5</b>	<b>7%</b>

HHS classifies costs by major budget functions such as Medicare, Health, Income Security, and Education, Training, and Social Services. This is shown on the Consolidating Statement of Net Cost by Budget Function in the “Other Information” section of this report. The graph below shows the two-year cost trends for these major budget functions.<sup>5</sup> In FY 2019, total net costs for Medicare of \$653.1 billion and Health of \$511.7 billion account for 95 percent of HHS’s annual net costs.

**Cost by Major Budget Function**  
(in Billions)

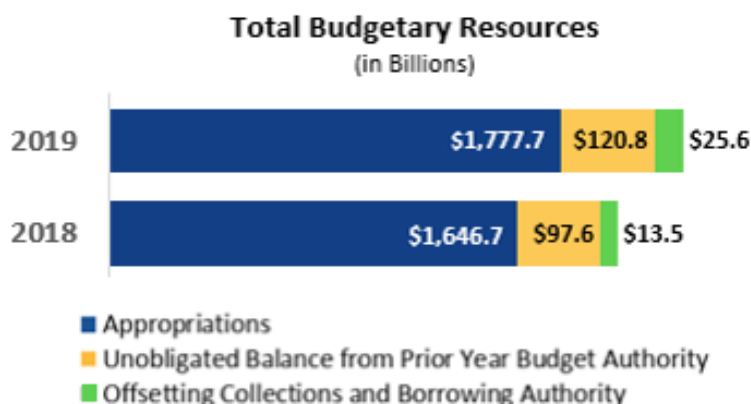


## Statement of Budgetary Resources

The Combined Statement of Budgetary Resources displays the budgetary resources available to HHS throughout FY 2019 and FY 2018, and the status of those resources at the fiscal year-end. The primary components of HHS’s resources, totaling approximately \$1.9 trillion for FY 2019, are appropriations from Congress, resources not yet used from previous years (unobligated balances from prior year budget authority), and spending authority from offsetting collections and borrowing authority. This represents an increase of \$166.4 billion or 9 percent, over FY 2018. The following graph highlights trends in these balances over the past 2 fiscal years.

<sup>5</sup> Totals in the chart are exclusive of Intra-HHS eliminations from the Consolidating Statement of Net Cost by Budget Function.





The increase in appropriations of \$131.0 billion or 8 percent is primarily related to increases in Payments to the Trust Funds (PTF) of \$50.1 billion, SMI of \$44.4 billion, HI of \$28.8 billion, CHIP of \$5.1 billion, and Medicaid of \$1.3 billion. For further details, see the Combining Statement of Budgetary Resources in the “Financial Section” of this report.

The increase of \$23.2 billion or 24 percent in unobligated balance from prior year budget authority is primarily due to unobligated balances brought forward from the preceding fiscal year of \$15.1 billion in Medicaid, \$12.6 billion in All Others/Program Management, \$6.4 billion in PTF, and \$4.3 billion in CHIP. The increase is offset by a decrease in recoveries of prior year unpaid obligations of \$9.8 billion and an additional decrease due to the change in unobligated balance of \$9.8 billion.

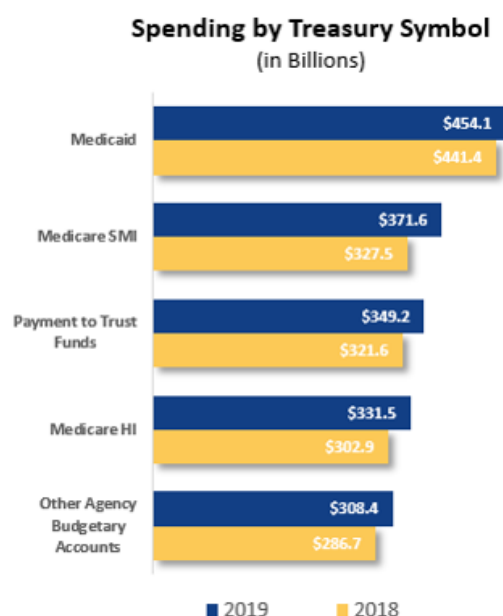
## Schedule of Spending

HHS has elected to present the trends in spending in the audited notes to the principal financial statements titled, Combined Schedule of Spending. The chart below illustrates spending as of September 30, 2019 and 2018 for the top four Treasury Account Symbols (TAS). The remaining TAS are presented in Other Agency Budgetary Accounts.

The New Obligations and Upward Adjustments line on the Combined Statement of Budgetary Resources is the same as Total Amounts Agreed to be Spent line on the Combined Schedule of Spending. Total obligations for FY 2019 were approximately \$1.8 trillion with an 8 percent increase over FY 2018.

The HHS’s total spending is once again significantly represented by four of CMS’s TAS (Medicaid, Medicare SMI, PTF, and Medicare HI) at 83 percent of HHS total obligations.

As the American public will see more clearly on the [USAspending.gov](https://www.usaspending.gov) website, the majority of HHS spending was made through Grants, Subsidies, and Contributions at \$884.2 billion or 49 percent. HHS is the largest grant-making agency in the federal government. Additionally, HHS has incurred obligations for Insurance Claims and Indemnities totaling \$789.1 billion or 43 percent. HHS classifies obligations by items or services provided into categories known as object classes. For more information refer to Note 21, Combined Schedule of Spending in the “Financial Section” of this report.





## Statement of Social Insurance

The Statement of Social Insurance presents the 75-year actuarial present value of the income and expenditures of the HI and SMI trust funds. Future expenditures are expected to arise for current and future program participants. This projection is considered important information regarding the potential future cost of the program. These projected potential future obligations are not included in the Consolidated Balance Sheets, Statements of Net Cost and Changes in Net Position, or Combined Statement of Budgetary Resources.

Actuarial present values are computed under the intermediate set of assumptions specified in the [2019 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds](#) (Trustees Report).

## Did you know?

Medicare spending accounts for 15 percent of the entire federal budget. Learn more about CMS's 5 part strategy intended to modernize program integrity methods at [CMS.gov](https://www.cms.gov).



The Statement of Social Insurance presents the following estimates:

- The present value of future income (income excluding interest) to be received from or on behalf of current participants who have attained eligibility age and the future cost of providing benefits to those same individuals;
- The present value of future income to be received from or on behalf of current participants who have not yet attained eligibility age and the future cost of providing benefits to those same individuals;
- The present value of future income less future cost for the closed group, which represents all current participants who attain age 15 or older in the first year of the projection period, *plus* the assets in the combined HI and SMI trust funds as of the beginning of the valuation period;
- The present value of income to be received from or on behalf of future participants and the cost of providing benefits to those same individuals;
- The present value of future income less future cost for the open group, which represents all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the Medicare program, *plus* the assets in the combined HI and SMI trust funds as of the beginning of the valuation period; and
- The present value of future cash flows for all current and future participants over the next 75 years (open group measure) decreased from \$(4.7) trillion, determined as of January 1, 2018, to \$(5.5) trillion, determined as of January 1, 2019.

Including the combined HI and SMI trust fund assets increases the present value. As of January 1, 2019, the future cash flow for all current and future participants was \$(5.2) trillion for the 75-year valuation period. The comparable closed group of participants, including the combined HI and SMI trust fund assets, is \$(12.7) trillion.



## HI TRUST FUND SOLVENCY

### Pay-as-you-go Financing

The HI trust fund is deemed to be solvent as long as assets are sufficient to finance program obligations. Such solvency is indicated, for any point in time, by the maintenance of positive trust fund assets. In recent years, current expenditures have exceeded program income for the HI program, and thus, the HI trust fund assets have been declining. The following table shows that HI trust fund assets, expressed as a ratio of the assets at the beginning of the fiscal year to the expenditures for the year. This ratio has steadily dropped from 73 percent at the beginning of FY 2015 to 62 percent at the beginning of FY 2019.

Trust Fund Ratio Beginning of Fiscal Year <sup>6</sup>	
FY	HI
2019	62%
2018	66%
2017	66%
2016	67%
2015	73%

### Short-Term Financing

The HI trust fund is deemed adequately financed for the short term when actuarial estimates of trust fund assets for the beginning of each calendar year are at least as large as program obligations for the year. Estimates in the 2019 Trustees Report indicate that the HI trust fund is not adequately financed over the next 10 years. Under the intermediate assumptions of the 2019 Trustees Report, the HI trust fund ratio is estimated to decline steadily until the fund is depleted in calendar year 2026. Assets at the end of calendar year 2018 were \$200.4 billion and are expected to decrease steadily until depleted in 2026.

### Long-Term Financing

The short-range outlook for the HI trust fund is similar to what was projected last year. The trust fund ratio declines until the fund is depleted in 2026, the same date as projected last year. HI financing is not projected to be sustainable over the long term with the projected tax rates and expenditure levels. Program cost is expected to exceed total income in all years. When the HI trust fund is exhausted, full benefits cannot be paid on a timely basis. The percentage of expenditures covered by tax revenues is projected to decrease from 89 percent in 2026 to 78 percent in 2043 and then to increase to about 83 percent by the end of the projection period.

The primary reasons for the projected long-term inadequacy of financing under current law relate to the fact that the ratio of the number of workers paying taxes relative to the number of individuals eligible for benefits drops from 3.0 in 2018 to about 2.2 by 2093. In addition, health care costs continue to rise faster than the taxable wages used to support the program. In present value terms, the 75-year shortfall is \$5.3 trillion, which is 0.9 percent of taxable payroll and 0.4 percent of Gross Domestic Product (GDP) over the same period. Significant uncertainty surrounds the estimates for the Statement of Social Insurance. In particular, the actual future values of demographic, economic, and programmatic factors are likely to be different from the near-term and ultimate assumptions used in the projections. For more information, please refer to the Required Supplementary Information: Social Insurance disclosures required by the Federal Accounting Standards Advisory Board.

## SMI TRUST FUND SOLVENCY

The SMI trust fund consists of two accounts – Part B and Part D. In order to evaluate the financial status of the SMI trust fund, each account needs to be assessed individually, since financing rates for each part are established separately, and their program benefits are quite different in nature.

While differences between the two accounts exist, the financing mechanism for each part is similar in that the financing is determined on a yearly basis. The Part B account is generally financed by premiums and general revenue

<sup>6</sup> Assets at the beginning of the year to expenditures during the year.





matching appropriations determined annually to cover projected program expenditures and to provide a contingency for unexpected program variation. The Part D account is financed by premiums, general revenues, and transfers from state governments. Unlike the Part B account, the appropriation for Part D has generally been set such that amounts can be transferred to the Part D account on an as-needed basis; under this process, there is no need to maintain a contingency reserve. In September 2015, a new policy was implemented to transfer amounts from the Treasury into the account five business days before the benefit payments to the plans.

As a result, the Trustees expect the Part D account to include a more substantial balance at the end of most months to reflect this policy.

Since both the Part B and Part D programs are financed on a yearly basis, from a program perspective, there is no unfunded liability in the short or long-range. Therefore, in this financial statement the present value of estimated future excess of income over expenditures for current and future participants over the next 75 years is \$0. However, from a government wide perspective, general fund transfers as well as interest payments to the Medicare trust funds and asset redemption represent a draw on other federal resources for which there is no earmarked source of revenue from the public. Hence, from a government wide perspective, the corresponding estimate of future income less expenditures for the 75-year projection period is \$(36.8) trillion.

Even though from a program perspective, the unfunded liability is \$0, there is concern over the rapid increase in cost of the SMI program as a percent of GDP. In 2018, SMI expenditures were 2.1 percent of GDP. By 2093, SMI expenditures are projected to grow to 4.2 percent of the GDP.

The following table presents key amounts from CMS's basic financial statements for fiscal years 2017 through 2019.

**Table of Key Measures<sup>7</sup>**  
(in Billions)

	2019	2018	2017
<b>Net Position (end of fiscal year)</b>			
Assets	\$ 502.0	\$ 467.3	\$ 444.2
Less Total Liabilities	134.2	123.5	137.5
Net Position (assets net of liabilities)	\$ 367.8	\$ 343.8	\$ 306.7
<b>Costs (end of fiscal year)</b>			
Net Costs	\$ 1,087.3	\$ 1,009.1	\$ 963.3
Total Financing Sources	1,079.0	1,017.7	984.6
Net Change in Cumulative Results of Operations	\$ (8.3)	\$ 8.6	\$ 21.3
<b>Statement of Social Insurance (calendar year basis)</b>			
Present value of estimated future income (excluding interest) less expenditures for current and future participants over the next 75 years (open group), current year valuation (as of 1/1/2019)	\$ (5,484)	\$ (4,708)	\$ (3,532)
Present value of estimated future income (excluding interest) less expenditures for current and future participants over the next 75 years (open group), prior year valuation (as of 1/1/2018)	\$ (4,708)	\$ (3,532)	\$ (3,822)
Change in Present Value	\$ (776)	\$ (1,176)	\$ 290

## Statement of Changes in Social Insurance Amounts

The Statement of Changes in Social Insurance Amounts reconciles the change (between the current valuation period and the prior valuation period) in the present value of future tax income less future cost for current and future participants (the open group measure) over the next 75 years. This reconciliation identifies those components of the change that are significant and provides reasons for the changes. In general, an increase in the present value of

<sup>7</sup> The table or other singular presentation showing the measures described above.



net cash flow represents a positive change (improving financing), while a decrease in the present value of net cash flow represents a negative change (worsening financing).

The present value as of January 1, 2019, decreased by \$201 billion due to advancing the valuation date by one year and including the additional year 2093, by \$200 billion due to changes in projection base, and by \$402 billion due to changes in economic and health care assumptions. However, the present value increased by \$27 billion due to changes in demographic assumptions. The net overall impact of these changes is a decrease in the present value of \$776 billion.

### **Required Supplementary Information**

As required by Statement of Federal Financial Accounting Standards (SFFAS) 17, *Accounting for Social Insurance* (as amended by SFFAS 37, *Social Insurance: Additional Requirements for Management Discussion and Analysis and Basic Financial Statements*), HHS has included information about the Medicare trust funds – HI and SMI. The Required Supplementary Information (RSI) presents required long-range cash-flow projections, the long-range projections of the ratio of contributors to individuals with Medicare (dependency ratio), and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The SFFAS 37 does not eliminate or otherwise affect the SFFAS 17 requirements for the supplementary information, except that actuarial projections of annual cash flow in nominal dollars are no longer required; as such, it will not be reported in the RSI. The RSI assesses the sufficiency of future budgetary resources to sustain program services and meet program obligations as they come due. The information is drawn from the 2019 Trustees Report, which represents the official government evaluation of the financial and actuarial status of the Medicare trust funds.

### **Limitation of the Principal Financial Statements**

The principal financial statements in the “Financial Section” have been prepared to report HHS’s financial position and results of operations, pursuant to the requirements of 31 U.S.C. §3515(b). Although the statements have been prepared from HHS’s books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation providing HHS with resources and budget authority.



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